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The Province of Alberta



IN THE MATTER OF "THE NATURAL
GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into
Scheme to be adopted for Gathering,
Processing and Transmission of
Natural Gas in Turner Valley

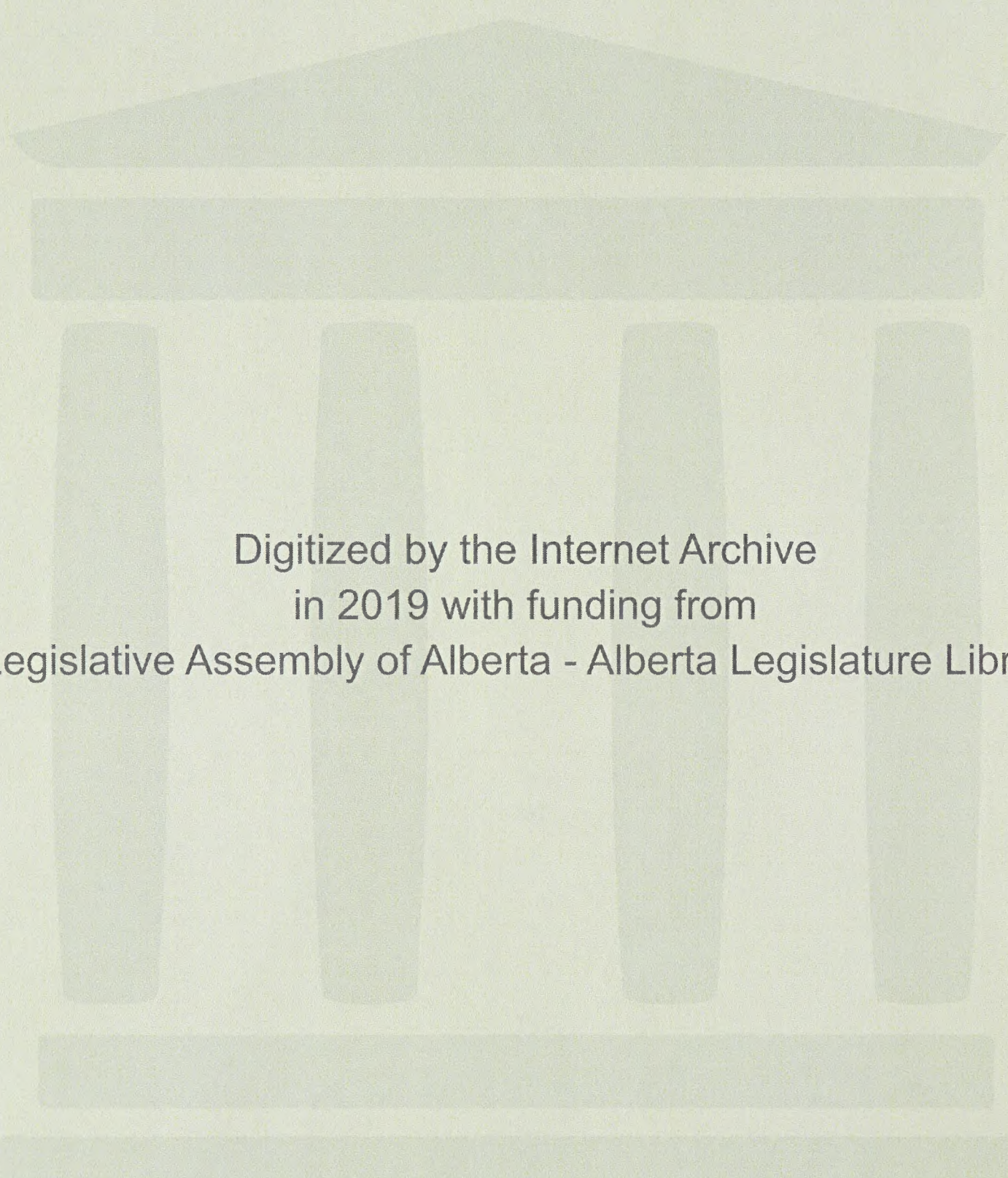
G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta March 18th, 1946

VOLUME 75



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9.30 a.m. Session,
March 18th, 1946.

MR. FENERTY: Mr. Chairman, if the Chairman pleases, is there any further information at the moment as to the possibilities in the future?

THE CHAIRMAN: Well, I am advised that there is neither a Court Room nor a Court Reporter available next week.

MR. FENERTY: And will not be

THE CHAIRMAN: And we cannot be sitting.

MR. FENERTY: And then there are the two weeks following.

THE CHAIRMAN: Then Mr. Blanchard has two weeks on the Barrs case and then I suppose these other gentlemen will be going to Ottawa about that time.

MR. STEER: Towards the end of April or the first of May, Sir.

THE CHAIRMAN: Well, we may get in two weeks before that. I am going East in May myself.

MR. STEER: Yes.

MR. FENERTY: There is a matter I have been thinking about over the weekend in relation to the production of documents and books. The Chairman may remember that this matter of implementing the Order granted on our application was more or less shelved until we saw what statements were produced, because it was felt that they might cover some of the situations arising. Now it seems to me that a rather extraordinary situation has arisen, and, perhaps, the time has come when we should know how far that Order is going to be implemented by my learned friend.

MR. HARVIE: I cannot hear you, Mr. Fenerty.

MR. FENERTY: I am sorry. That we should know how

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far that Order is going to be implemented. It now turns out that the Royalite officials have apparently been able to prepare a statement showing the result of the Gasoline Division operations over a period of years on a certain basis, and starting with certain figures. We say it is not complete but, at all events, it covers part of that, starting with certain figures. We are also told that that statement which we had hoped might give us some of the figures we are interested in is not part of the Inquiry we are interested in. At least, that is my learned friend's contention. It now becomes apparent that the statements he is submitting are statements that he does not think we are interested in, and they do not and they cannot assist us in the Inquiry with reference to the things we are asking to be produced. And it seems to me that since the Royalite officials find that they are able to prepare a statement showing the results of operations of the Gasoline Division over a period of years, no matter on what basis they do it, that their objections, if they had any, on the grounds of impossibility with regard to the preparation of a similar statement over a period of years, with reference to the dry gas situation, automatically becomes of little value, and it seems to me, as far as we are concerned, we are having the extraordinary position where we have an order for the production of books and documents, which has remained in abeyance until certain statements are prepared, and we now find that the statements that have been prepared my friends contend we are not interested in. We find that they are able to prepare a statement segregating one division, and it seems to me that the time has now come for the implementing of that Order that they should prepare statements with reference to the other Division, because it is no longer

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Discussion

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possible to say that it cannot be done. We have not got anything under that order that we obtained, and we do not know when we are going to get it.

THE CHAIRMAN: That is purely a theoretical statement.

MR. FENERTY: Pardon?

the CHAIRMAN: That is purely a theoretical statement?

MR. FENERTY: Yes.

THE CHAIRMAN: Well, I understood that Mr. Mercer was to go into the box and submit to cross-examination. That is the way it was left, as I understood it.

MR. CHAMBERS: Yes. Sir, your Order did not, and, I submit, for very sound reasons, order any statement to be prepared.

MR. FENERTY: Oh, I am wrong in that. I do not care how it is done as long as the information is made available so that we are not fishing, but something should be done to implement that Order, that is all I am asking.

MR. CHAMBERS: Well now, I have taken the position from the first that it is not incumbent on me or my clients to prepare statements that some other party to the Hearing might for some particular reason want prepared. Now, your Order, sir, directed that any statements that were in existence that cover these matters would be produced. I have advised the parties to the Hearing, and I think Mr. Mercer said something about it in the box, that there were not statements in existence of the kind they would apparently like to have. We, on making certain assumptions, have prepared and have filed through Mr. McLellan, a statement which has already been marked as an exhibit. In order to prepare that statement he had to arbitrarily or, in any event,

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decide to use certain theories and his statement is predicated on that. Now, if my learned friends wants to take and assemble those figures on the other basis that is their business, but so far as the statements that are in existence are concerned, I think we have threshed that out.

MR. FENERTY: Well, what about them, let us have them.

MR. CHAMBERS: There are not any, that is the point.

MR. FENERTY: What is that?

MR. CHAMBERS: There aren't any, that is the point.

That is my information. There are statements for different departments, but you can see that those departments do not follow the compartments that are of importance in this Hearing.

MR. FENERTY: Now, if there are not those statements, then let us have the witnesses here on the stand tell us where they are, whether destroyed or what. I am referring to the statements referred to and verified under oath. We will question the witnesses what happened to them, if they are not around, and if they have been destroyed, we cannot get them, and with reference to the other matters my learned friend refers to, if we can get this statement and arising out of that there can be worked out from the records of the Royalite Company the results of operations, then with the permission of the Board, I propose to ask those things on cross-examination, and I presume it will be necessary to have an adjournment for a week or two until the witnesses can dig that information out. I think from the Royalite's performance it is incumbent on them to furnish the information from the books, and I thought it would be a better and quicker way of doing it without taking up the time of the Board.

THE CHAIRMAN: I cannot direct Royalite to prepare

any statements, I do not think.

MR. FENERTY: Yes.

THE CHAIRMAN: I have ordered the witnesses to produce books and statements in existence and submit to cross-examination on those things. That is as far as I can go.

MR. FENERTY: Yes. Well, all I want to do with my learned friend now is, at least now, is that the statements that he is going to produce have been produced and they do not touch very much on one aspect of the case, I submit that the assumption is there, and all I am asking is that they be implemented. I am serving due warning on my learned friend that the armistice is now over and I am asking that they be implemented.

MR. CHAMBERS: I would like to file an agreement with the consent of my learned friend, Mr. Steer. It is not an original but my learned friend has furnished me with a copy. It is a copy of the agreement dated the 16th day of July 1925, between Imperial Oil Refineries Limited and Gas Production and Transportation Limited, together with an assignment thereof from gas Production and Transportation Limited to the Canadian Western Natural Gas, Light, Heat and Power Company Limited. I just have the one copy, and I am putting it in really to follow up a question I put to Mr. Davies.

THE CHAIRMAN: Exhibit 160.

AGREEMENT BETWEEN IMPERIAL OIL REFINERIES LIMITED and GAS PRODUCTION AND TRANSPORTATION LIMITED, WITH ASSIGNMENT TO THE CANADIAN WESTERN NATURAL GAS, LIGHT, HEAT and POWER CO. LTD. DATED JULY 16th, 1945, MARKED AS EXHIBIT 160.

MR. HARVIE: Mr. Chambers, I wonder if you can tell

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us if the Gas Production and Transportation Limited was a subsidiary of Imperial Oil?

MR. CHAMBERS: No, it was a relative of the Gas Company.

MR. BLANCHARD: Mr. Chairman, arising out of Mr. McLellan's cross-examination, I understand that he is to return to the witness box, and I submit that these statements with reference to the absorption plant operations should be carried back to the inception of those operations. The submission covers the period 1939 to 1944, and the question arises as to what the earnings of Royalite were prior to that, to ascertain whether they have actually earned the depreciation taken in their books.

Now, there is nothing in the Act that indicates in what way this Board is to arrive at the division between the producer and the absorption plant operator, of the products that are covered by this absorption process. And when you come to explore the position of earnings of this Company from its inception and what depreciation has been taken, we are met with this that on the books there is a certain depreciation, but all Royalite can say is that that is just a book entry for income tax purposes, and this Board does not know whether it has been earned or whether it has not been earned. My submission is that Royalite, just as British American has done, should submit its accounts for the operations from the beginning of the absorption plant operations. And, it seems to me, that unless we have that, we are starting in the air.

THE CHAIRMAN: You mean the actual book entries to show what depreciation was taken and what the earnings were after depreciation?

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Discussion

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MR .BLANCHARD: I am not so concerned with what depreciation was taken on the books, because we have heard several witnesses who say that is a book entry, it does not necessarily mean that they earned the money. It is for income tax purposes, and it seems to me that this Board wants to know whether it has earned the money, that is my point.

(Go to page 6068)

T-1-1 9.45 A.M.

Discussion.

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Q THE CHAIRMAN: And that would be shown by the books?

MR. BLANCHARD: It will be shown by the amount of gasoline produced, the amount sold and how much their expenses were from year to year.. Here we are starting with 1939 and not 1933. That is the point.

MR. HAMILTON: I think, sir, we will be satisfied with a statement prepared in similar form for the years 1933 up to 1938, similar in form with the statement produced for the years 1939 to 1945, perhaps on an approximate basis so as not to take the same amount of trouble that was taken in the preparation of the statement already before you.

MR. CHAMBERS: What is suggested now is much more than was suggested or asked for even in the case of the Madison Gathering Lines, which is a utility. On the same basis we would be going back to 1922 and prepare a statement of Royalty's gas operations. Now here is another company which is not a utility and the Board is not dealing with it as a utility. Now it is suggested that we go further and that we go back to the beginning of this Plant and reconstruct the Plant's operations and that obviously will involve making certain assumptions and allocations because the fact is this company's books - and I am not suggesting there is any criticism of it - this company's books were not kept in a way that would furnish that information. I do not want to be arbitrary about the thing, sir, and I am serious about this, that so far as our people are concerned if there is any statement being prepared it cannot be a horseback statement, let me say, because the witness has to submit to cross-examination and frankly I am not prepared to advise my clients to volunteer to have that information compiled. In the first place, I contend that the

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information is not relevant because it goes back long before this Act was passed and secondly, the time and expense that is involved. But if somebody is to prepare it, and I am saying this with all respect, it should be somebody appointed by the Board, the Board's own auditor.

MR. BLANCHARD: I think we can very easily get over this situation if my learned friend will admit as a matter of fact for the record that the depreciation shown in the books of the company from the commencement of its operation was actually earned.

MR. CHAMBERS: I am certainly not in a position to say one way or the other to that now. I will take that under consideration and see if maybe I cannot find that out.

THE CHAIRMAN: This is quite clear, there is no direction in the Act how the apportionment is to be made and it does seem to me that, as I suggested to you the other day, the information perhaps was not sufficient to enable me to make an allocation. You say it is not a utility and that is right, but you are asking me to make the allocation on a public utility basis or at least one would infer from your Exhibit filed by Mr. McLellan that that is what you are asking. I do not know how I am to do it. However, if you can answer that question of Mr. Blanchard's that might solve the difficulty, Mr. Chambers.

MR. CHAMBERS: I will see what I can do.

THE CHAIRMAN: Mr. Harvie?

MR. HARVIE: Mr. Donellan is prepared to go ahead.

.....

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R. Donellan (Recalled)
Dir. Exam. by Mr. Harvie.

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ROBERT DONELLAN (Recalled), Direct
Examination by Mr. Harvie.

Q MR. HARVIE: Mr. Donellan, you are already sworn?

A I am.

Q I believe you have prepared from the books of your company a statement showing facts and figures relative to the Absorption Plant operations of your company that have been carried on in Turner Valley from its inception to this date?

A Yes, I have an Exhibit.

Q I wonder if you will proceed to read that? That will be Exhibit 161.

STATEMENT, BRITISH AMERICAN OIL COMPANY
LIMITED re TURNER VALLEY ABSORPTION
GASOLINE PLANT NOW MARKED EXHIBIT 161.

A The attached statements are a summary of the operations of the Turner Valley Absorption Gasoline Plant of the British American Oil Company Limited from July 1st, 1936 to December 31st, 1944, inclusive, with the exception of the Summary of Operating Expense for the year 1945, which at this time remains incomplete pending decision to be handed down at the conclusion of the Natural Gas Hearing. I might interject here that the Operating Expense statement for the year 1945 is now complete and will be filed as a supplementary exhibit on the completion of the filing of the present exhibit.

Q MR. BLANCHARD: That is also for the natural gas operations I take it.

A It is the Turner Valley Absorption Plant. We have only one Plant which is making the Absorption Plant product.

MR. HARVIE: What was your question, Mr. Blanchard?

MR. BLANCHARD: I wondered if you were going over your operating expenses for 1945?

R. Donellan (Recalled)
Dir. Exam. by Mr. Harvie.

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MR. HARVIE: At the Absorption Plant?

MR. BLANCHARD: And the natural gas.

MR. HARVIE: Which is the Utility operation.

MR. BLANCHARD: Yes.

A The natural gas utilities' statement is also complete and will be filed too. In reference to this remark I just made about remaining incomplete pending the decision of the Board, I just would like to mention that I mean that the statements are affected by the decisions of this Board for such items as (1) The transfer of the high pressure gathering lines and the water system to the utilities company. That transfer has not yet been finalized. The assets remain in the possession of the B.A. Oil Company and no charge has been made in the 1945 statement as yet for depreciation. Provision for amortization has been included in the utilities' statement. Then the second point is the allocation of the costs of the operations on the books of the utility company. A charge has been made to the B.A. Oil Company in line with our submission, namely 15% of the operating costs of the gas gathering lines and 75% of the costs of the water system. But both of these matters may be subject to change when the Board's ruling is finally given. The statements which are being submitted herewith are as follows:

1. Summary of deliveries from Turner Valley Absorption Plant for period July 1st, 1936 to December 31st, 1945.

This statement, (see page 1), shows the grade, quantity and value of Absorption Gasoline delivered from the Turner Valley Plant. It will be noted that commencing with the year 1943 and continuing throughout 1944 and 1945, a 45# R.V.P. product was manufactured and delivered to the Calgary Alkylation Plant.

R. Donellan (Recalled)
Dir. Exam. by Mr. Harvie.

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The manufacture of the 45# R.V.P. product was responsible for the decided increase in the quantity of Absorption Gasoline produced. The value shown in each case is the posted field price for Turner Valley Absorption Gasoline.

2. Fuel and Residue Gas Sales during the period
July 1st, 1936 to December 31st, 1945.

This statement, (see page 3), shows the sale of residue gas for drilling purposes, etc., including residue gas delivered to the Madison Scrubbing Plant for ultimate delivery to the Calgary market, in the years 1944 and 1945, and also shows the allocation of monies received from the sale of this gas.

3. Summary of Natural Gas Receipts from Wells, Natural
Gas Produced and amount paid therefor to Producers -
July 1st, 1936 to December 31, 1945.

This statement, (see page 5), shows the natural wet gas received from the wells together with the production of natural gasoline from said natural gas. The amount paid to the Producers as shown in the third column of this report is 20% of the total value of production less line loss, valued at the posted price, current from time to time, of Absorption Gasoline in Turner Valley. Column #4 shows the unit prices per M.C.F. and column #5 shows the production of natural gasoline expressed in gallons produced per thousand cubic feet of gas.

4. Summary of Operating Expenses Turner Valley
Absorption Plant July 1st, 1936 to December 31st,
1944.

These statements (pages 6 to 23), cover the operating expenses of the Turner Valley Absorption Gasoline Plant; there being a statement for each of the years 1936 to 1944 inclusive. The 1945 statement has not yet been completed. As I mentioned a moment ago when I finish with this Exhibit I shall be filing a supplementary exhibit for 1945. Page 1 of each

R. Donellan, (Recalled)
Dir. Exam. by Mr. Harvie.

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statement shows the total operating expenses for the year broken down by the four main functions of the Plant. Page 2 shows the operating expenses of the auxiliary functions which are in turn allocated to the four main functions. These statements have been prepared in such a way that they show:

- (a) The total cost including depreciation
- (b) The total depreciation included in the statements
- (c) The total cost excluding depreciation.

In reviewing these statements the following points should be noted:

(1) Administration and General Expense : The amounts shown in these statements for administration and general expense are arbitrary amounts included for statement purposes only, as it was not the policy of the Company to make direct charges to the various Plants or Units for Administration. If Administration had been charged directly to this plant the charge would have been considerably higher than that shown on these statements as there was proportionately more administrative work done in conjunction with this small outlying plant than there was in the larger centrally located plants. This Absorption Plant manufactured a product used in other Departments, not a final product for sale. The net administrative costs were divided as between Marketing and Manufacturing departments of the Company. The amount shown on these statements is a pro rata share of the amount allocated to manufacturing operation. As stated above, it does not represent an estimate of an adequate administration charge to the Absorption Plant.

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Dir. Exam. by Mr. Harvie.

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(2a) Depreciation: The depreciation shown on the statement is the amount as recorded in the books of the Company. To properly determine the costs of operation an adjustment would necessarily have to be made after giving consideration to the following factors:

(a) The actual charges made for depreciation are as stated above in accordance with the actual entries made. Advantage was taken of favourable rulings from the Tax Department whereby the depreciation rate of 20% was used in view of the probable short life of the Turner Valley field. This rate does not reflect a proper charge for depreciation actually incurred in the operation of the Plant, and as a result has reduced the book value of the investment to a net amount of \$69,977.52 as at 31st December, 1944.

(b) A conservative policy has been followed in recording the value of the Plant. No amounts have been capitalized with respect to administration charges or interest during construction.

(c) No allowance for any depreciation has been made in respect to the \$30,000.00 expended for the additional equipment required to prepare the product for the Alkylation Plant.

(2b) Depreciation charges: With regard to the depreciation eliminated from the bottom of the statement it will be noted that in the "Total Expenses" column, the charge for depreciation and the amount eliminated at the bottom of the statement are one and the same figure. However, when this figure is followed across to the Departments it will be noted that the amount of depreciation deducted at the bottom of the statement in each case is in excess of the depreciation charges appearing in the body of the statement. This is due to the

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fact that depreciation is included in the charge for the cost of electricity, water and steam in addition to the direct depreciation allocated to each Department.

5. Comparative Operating Expenses of High Pressure Gathering Lines July 1st, 1936 to December 31, 1944:

This statement (see page 24) summarizes the Operating Expenses of the High Pressure Gas Gathering Lines as contained in the Operating Expenses reported on pages 6 to 23.

6. Summary of Natural Gas Receipts from Wells and Disposition of Same - July 1st, 1936 to December 31, 1945, inclusive.

This statement (see page 25) shows:

- (a) The natural gas receipts from the wells in thousands of cubic feet.
- (b) The receipts of natural gas at the Absorption Plant.
- (c) The shrinkage due to the extraction of absorption gasoline.
- (d) Fuel Gas Used, in operations.
- (e) Ultimate disposition of the residue gas.

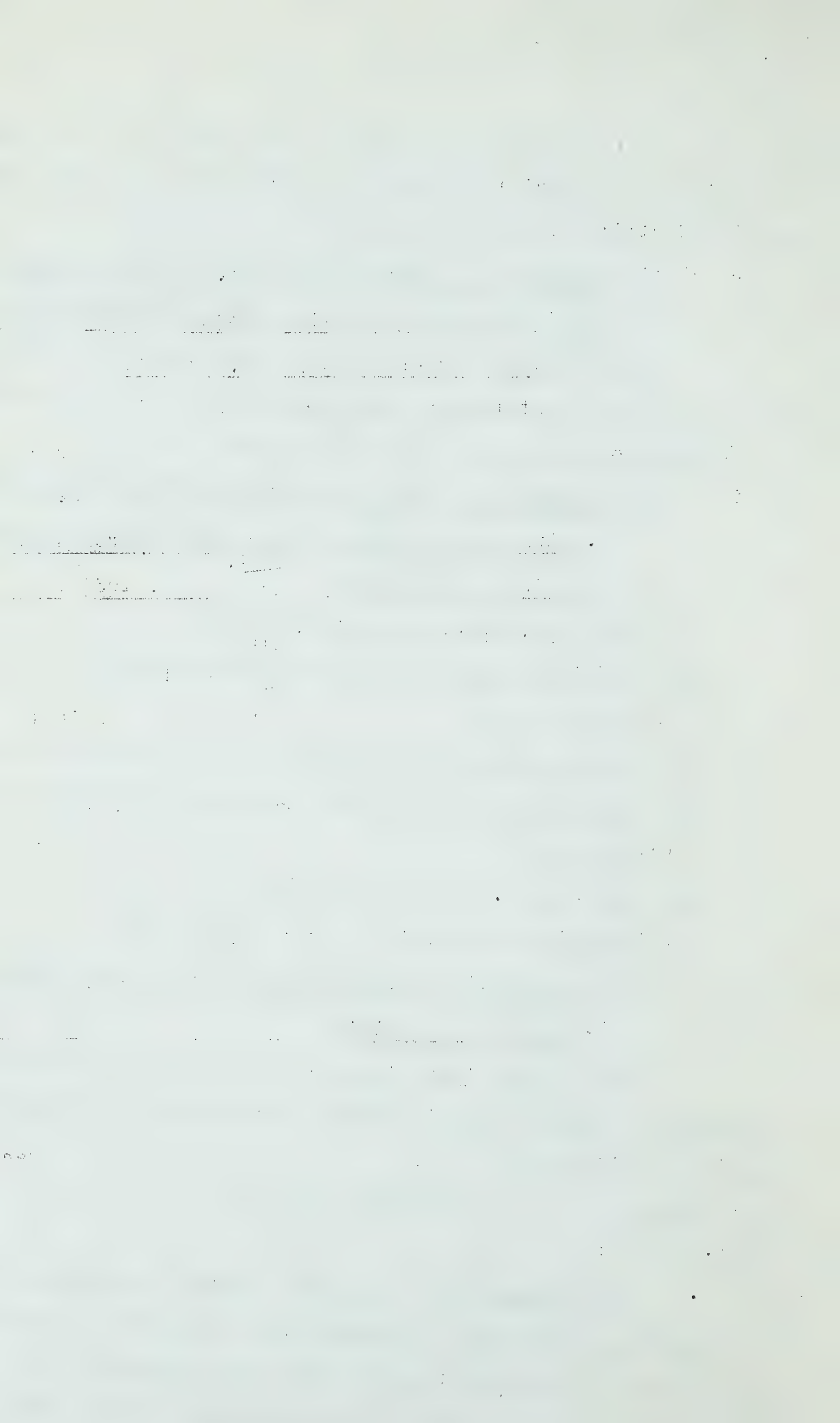
7. Summary of Original Cost of Assets and Reserves against the Assets:

And at this time Pages 26 to 29 inclusive were distributed to Counsel separately and those should be attached as part of this Exhibit.

MR. HARVIE: I think they are in ?

A Yes.

This summary (see page 26) shows the original cost of plant and subsequent additions and retirements to December 31, 1944. The reserves against the assets shown on page 26 are summarized on page 27. Pages 28 and 29 are two work sheets



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reconciling the figures shown on pages 26 and 27, for cost of High Pressure Gas Gathering Lines and Water System, to the figures shown on Mr. Hamilton's statement WH 15 - Exhibit 124. A number of additions and retirements were booked subsequent to the figures being supplied to Mr. Hamilton. The figures have been broken down so as to separate the cost of the High Pressure Gas Gathering Lines and Water System, which are being operated by the British American Gas Utilities Limited as from January 1, 1945, from the Absorption Gasoline Plant. The adjustments shown on the bottom of pages 26 and 27 are additions and retirements made late in 1944 that were not booked until 1945.

It should be noted that the cost of the assets as shown on page 26 do not include the \$30,613.75 expenditure made at the Absorption Plant in conjunction with the installation of the Alkylation Plant.

These statements, page 26 - cost of assets, and page 27 - reserves for depreciation, are the actual amounts shown in the books of the British American Oil Company Limited. It must be realized that an adjustment would be necessary to determine the real value of the Plant. For example, it would be advisable to confirm the physical existence of the plant shown in the records by a physical appraisal, and the present day actual value thereof determined. This value might be cost after adjustment for administration and interest during construction, less a revised depreciation charge, to more properly represent the actual depreciation used in the operation of the plant to date, or it might be advisable to have an independent appraisal completed at present day values.

R. Donellan,
Dir. Exam. by Mr. Harvie.

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And then, Mr. Chairman, it might be advisable with your permission to file the completion of the 1945 Supplement to this.

THE CHAIRMAN: Perhaps this would be the proper time to do it, it will be Exhibit 162.

SUPPLEMENTARY STATEMENT PRODUCED HERE
MARKED AS EXHIBIT 162.

Q THE CHAIRMAN: And what is it ?

A It is the Supplementary statement of Exhibit 161, summarizing the statement of operations 1936 to 1945.

NATURAL GAS UTILITIES ACT
THE BRITISH AMERICAN OIL COMPANY LIMITED
TURNER VALLEY ABSORPTION
GASOLINE PLANT

RE: STATEMENT OF OPERATIONS 1936 to 1945

Supplementary to the Exhibit filed earlier, the following statements are now submitted:

(a) Statement showing a summary of the results of operations for the years 1936 to 1944, together with the corresponding statement for 1945.

(b) Statement of the operating expenses for the year 1945 exclusive of charges for administration and depreciation.

Re: Statement of Operations:

These statements of operation represent a summary of the information previously filed in Exhibit 161 with the addition of inventory values and of sundry revenue items affecting the Absorption Plant operations.

That main statement, as I say, is a summary of the previous Exhibit and I thought we would put it all in together to arrive at the net revenue from the absorption plant in accordance with the Company's books. The information

R. Donellan,
Dir. Exam. by Mr. Harvie.

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previously taken from Exhibit 161 is from inventory values beginning and closing at the end of each year.

With reference to the statement of operations for the year 1945, this has been prepared in a similar manner to those for the years 1936 to 1944. The statement was prepared from the records of the Company. It is necessarily incomplete insofar as charges for depreciation and administration are concerned - hence no amounts are included for either of these items. The statement does include charges from the Utilities Co. for 15% of the Gathering costs and 75% of the cost of operating the water system.

Q MR. McDONALD: I might say, Mr. Donellan, my copy is not quite clear. At the first of the year 1936, on Page 1.

A Yes.

Q Is it \$20,766.29, should that be a red figure ?

A That should be a red figure.

Q And 1939, is a red figure ?

A The \$17,123.15, yes.

Q Yes, and the next ?

A And that is a red figure, \$34,505.08.

I must apologize for the form of these statements. Unfortunately they were run off on the Sabbath yesterday and we got penalized and could not get a good job. Amateurs did them but I thought we would like to get the complete statement filed and I will replace them if they are not readable.

1941, Mr. McDonald, is also a red figure, that \$11,065.32.

1942 is a red figure of \$10,832.13.

If you will have patience with me in

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Dir. Exam. by Mr. Harvie.

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trying to decipher them I would appreciate it.

There are a few explanatory notes or comments rather which I would like to make in connection with the statement, with your permission.

The statements covered by Exhibit 162 do not make any allowance for income tax.

The amount to be deducted from the net operating revenue in those years when a profit was realized, are as follows:

1937	\$9,822.99
1939	6,893.52
1943	5,324.80
1944	17,989.56

Total proportion of income tax \$40,030.87, or a net return on the investment for the period ending 31st December 1944 was therefore \$35,406.52.

I am reading that in as a supplementary because I want to maintain these statements as being strictly in accordance with the books of the Company and I did not see how I could avoid making that arbitrary computation for distribution but you will realize the absorption plant is only a part of a big organization, in our Company the British American Oil Company, and there was no separate tax arrangement.

These attached figures I have just read out reflect the proportion of the amount of taxes applicable to those earnings.

Q MR. HAMILTON: You said a moment ago that by deducting that tax you arrive at the net revenue, is that observable somewhere ?

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R. Donellan,
Dir. Exam. by Mr. Harvie.

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A That forty thousand, that is net return on the period up to 1934, the thirty-five thousand, that is simply a deduction of the forty thousand taxes from the net seventy-five thousand. The net earnings were seventy-five thousand before provision for taxes and deducting those taxes you arrive at thirty-five thousand.

Q And that is a fair estimate of the profits ?

A That is right.

In connection with the statements of operations 1936 to 1945, when considering the statements of operating results for the year 1945, it shows the net revenue from operations of \$95,726.40. That will be found on the small sheet in Exhibit 162.

(Go to Page 6081)

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1. 11. 11.

[illegible][illegible]

R. Donellan,
Dir. Exam. by Mr. Harvie.

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When considering the statement of operating results for the year 1945 showing a net revenue from operations of \$95,726.10, several matters must be taken into consideration. As outlined when the Exhibit was filed, it is exclusive of charges for administration and depreciation. The charge from the Utilities Co. for 15% of the operating cost of the Gas Gathering Lines (\$9,154.17) is also subject to further adjustment. On the basis of the Company's submission in assuming that the Board allows the rate of return and amortization as covered in that submission. This charge, when it is complete, as to both the High Pressure and Low Pressure Gathering systems, will be increased to \$12,255.87. Allowing reasonable estimates for administration, \$15,000; allowing for depreciation on the book values of the Plant \$3,025.00; and also allowance in connection with the depreciation of the Alkylation Plant expenditure \$3,000.00 - these items, together with the additional charge for 15% proportion, \$3,101.70 will result in charges totaling \$21,126.70, or a reduction in the net revenue from operations to \$74,599.40.

During 1945 the plant continued to manufacture a 45# R.V.P. product. Had the operations been to manufacture a 26# product, as was the case prior to the opening of the Alkylation Plant, the net revenue for the year would have been reduced by \$ 98,556.00, or a net deficit of \$2,829.00 before charges for administration or depreciation. This point is emphasized as it is not possible to state whether or not the Plant will continue to manufacture a 45# product or will have to revert to a 26# product - the type of production maintained prior to the opening of the Alkylation Plant.

In view of the suggestions made at earlier

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sessions of this Hearing, I have roughly estimated the effect on the absorption plant operations of the suggestions made. I assume that 15% of the compression costs should be added to the charge to the B. A. Oil in addition to the 15%,^{of} the cost of operating the gathering lines, an estimate of the net revenue from the operations would be \$63,950.87 or after allowing for 40% income tax the net return of \$38,370.53. It was suggested that the allocation of the costs of gathering and compression should be 100 over 185 of these items. Such a division would reduce the net revenue from the absorption plant by \$69,364.30.

Q MR. HARVIE: \$69,354.30.

A Thank you, \$69,354.30. Leaving a net revenue of \$5,245.10 or again after providing for tax a net revenue of \$3,157.06.

Another suggestion was made that the whole cost of gathering and compression should be borne by the absorption plant. In this event the charge to the absorption plant operations would be a further \$138,734.28 or a net deficit for the operations of \$64,134.88. Again, I think it may be of some assistance if I have some approximate calculations made about depreciation, so for information I have prepared the following summary of the operating results on the assumption that the plant had been depreciated on an equated annual basis to the end of 1954, the probable life of the field now that low pressure gas is being used. What I did there, I took the investment at the end of 1936. I took what the depreciation would have been on a straight line basis to the end of 1954. I took my revised net value at the end of 1937. It is an approximate figure only and would want refinement, but I thought it might be of some assistance in view of my other comments that depreciation has been as high as 20% in some

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years and was now down to nominal results. This gives the following results after making adjustments had depreciation been made on that equated annual basis. There would have been a net loss in the first year of \$7,475.76.

Q You mean that first year ?

A In 1936, that is the first period I should say. It is only a six months period.

Q MR. CHAMBERS: That is a six months period ?

A No, that is for the period ending December 31st, 1936. We have commonly called it a six months period.

Q MR. HARVIE: The plant only operated part of that year ?

A Part of that year. It started operations as I recall it in June and broke down a little bit until they got some more bugs out and we called it six months. 1937, instead of a profit of \$65,486.64, there would have been - excuse me, I want to be careful and not refer to profit in operating revenue - that \$65,486.64 would now be \$80,070.46. The net revenue in 1938 of \$45,956.81 would go up to \$67,711.05. The loss in 1939 of \$17,123.15 would be replaced by a net revenue of \$18,884.64. The loss for the year 1940 \$34,505.08 would now be a profit of \$3,354.18. 1941....

Q MR. HARVIE: That is revenue, not profit ?

A That is net revenue, thank you. 1941 the loss of \$11,065.32 would be a net revenue of \$8,703.66. 1942, the loss of \$10,832.13 would be converted into a loss of \$22,141.03. In 1943, operating net revenue of \$13,312.00 would be reduced to \$2,979.35. 1944, \$44,973.91 would show a net revenue of \$21,254.94. In each case the revenue or losses which I have just read out were after providing tax at the rates in effect for the appropriate years. I think that summarizes all that I

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to submit.

CROSS-EXAM. BY MR. McDONALD:

- Q Are these totals, the figures, that is of the net loss and net revenue ?
- A Yes I have. It comes down to a net operating revenue to the end of 1944 of \$173,341.49 as against \$75,437.39 shown on Exhibit 162.
- Q Taxes have been credited in this figure of one seventy-three thousand ?
- A Yes, correct.
- Q And the comparison of your figure of \$35,000.00 ?
- A Oh, did I say \$75,000.00, thank you. That is the comparative cost, the \$35,000.00. That summarizes that what I have and all I can think of in connection with the absorption plant operations and covers assets and operations exactly as shown by the books of the Company. I read those notes because the notes I read is the only case where I get beyond the books of the Company, other than the minor administration items.
- Q MR. HARVIE: One point, Mr. Donellan, on Page "E" of your letter of transmittal of Exhibit 161 you mention the fact that the \$30,613.75 in expenditure made at the absorption plant in conjunction with the installation of the Alkylation plant was not included in your capital values or costs in the statement submitted of the absorption plant assets ?
- A That is correct.
- Q In fact the equipment paid for by that amount is actually there at the present time ?
- A Is actually....
- Q Is actually being employed ?

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Dir.-Exam. by Mr. Harvie

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A It is actually. It was necessary to make that investment to make the 45# product.

Q It is not a question-that \$30,000.00 is just a question of how you are carrying it in your books ?

A Yes. The money has been spent. The plant has been in operation but we are still waiting completion of negotiations with the Government as to who pays who and how much. The reason that it was eliminated from the original statement that I gave Mr. Hamilton at the commencement of this was that I had assumed automatically that the 45# product would go out of the picture when the alkylation plant closed down and I have been hoping then that the adjustment from the Government would take care of any losses incurred.

Q The Company has received something on account of that 60% ?

A Yes.

Q In conjunction with the additional expenditures made under the same agreement ?

A Yes. I think I recall reading in the transcript a copy of the contract was filed and we received that 60% referred to in that contract. The \$30,000.00 by the way is a gross figure. We got 60%, that is not a net figure after payment. We got payment on account from the Government of 60% of the actual expenditure.

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Cross-Exam. by Mr. McDonald.

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THE CHAIRMAN: Is that all, Mr. Harvie?

MR. HARVIE: That is all, Sir.

THE CHAIRMAN: Mr. McDonald?

.....

CROSS-EXAMINATION BY MR. McDONALD.

Q Do you happen to have the undeprciated investment you have remaining after 1944 on the basis of the 18 years' depreciation?

A I have not got it with me, but I can have it after the recess. I left the statement to have some further refinements made, and it can be got. It is available. It is being worked on. I was trying to get it and I was hoping to have it in time for this morning, but it was not finished and I left the staff working on it. The information you want is available.

Q But what you did roughly was to divide your original investment by 18?

A Yes, and by 17 the next year. I want to make it perfectly clear that that is an approximation. I did not get all the refinements of it or anything of that nature. I thought that I would give you the substance of the result rather than get the last ounce of accuracy. I can refine it down if we get some more time.

Q Now, could you tell me about the sales, the reconciliation between the gas processed and the sales in the years 1941 and '42? I think this Exhibit 162 gives some of it?

A Exhibit 162 deals with the financial aspect. I have given you the summary.

Q At the bottom?

A I have given you the summary of production and processing. You are asking for a reconciliation of what, Mr. McDonald?

R. Donellan,
Cross-Exam. by Mr. McDonald.

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Q Gas processed and the sales in the years 1941 and 1942.

What I have in mind is this, looking at it from your previous statement, 161, it appears that the years '41 and '42.....

A I noted the point you are making. It occurred to me at the same time. That is on page 5 there is a much worse production of natural gasoline in 1941 and '42 than the prior years and subsequent years.

Q Yes?

A I noticed that and I got in touch with the plant superintendent, who advised me on Saturday, and he gave me the information that in 1939 - he took 1939, and there was an average G.P.M. of 3.5. I am trusting to memory. I did not bring the letter with me, and in 1941 the G.P.M. was 2.9. It seems to me that it is a reflection in the drop of the G.P.M. of the product.

Q Yes?

A And working it out on this G.P.M. analysis that he gave me, it justifies that 57 thousand figure.

Q MR. STEER: 3.5 or .35?

A .35 and .29. It was a ratio of .35 to .29. I know it was roughly a one-sixth reduction in the G.P.M. content.

Q MR. McDONALD: Page 5 indicates that figure?

A Yes, Page 5 indicates that figure. I noted that and I thought I would get an answer as soon as I arrived in Calgary.

Q Now, can you tell me, Mr. Donellan, your statements do not show the payments to the producers as against sales?

A Page 5 shows the payment to producers, Mr. McDonald, the amounts paid to producers.

Q Yes. Well now.....

A And that quantity and value is, I think, related in here. No, they are not related here.

Q It is set out on Page 5. I was going to ask you the total

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Cross-Exam. by Mr. McDonald.

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value of the production, and that was taken at 20%?

A 20% is the amount. There is a footnote on that page that the amounts paid to producers is 20% of the total value of production, less line loss, valued at the posted price in Turner Valley.

Q Now, I notice in your statement 162, in the year 1945, Mr. Donellan, you mention "Credit for production of 45 pound R.V.P. absorption gasoline?"

A Yes.

Q I take it that this gasoline actually was not sold by the British American Company, just transferred from the absorption plant to the refinery?

A I have always maintained a clean-cut distinction between sales and transfers. From an accounting point of view I am very hesitant to say that the transfers to the alkylation plant possibly come within the definition of sales, that is, when the alkylation plant was the joint, under the joint processing agreement between Imperial and ourselves. I have the credit for production now, that it is only going from the alkylation plant to our refinery, and I have that terminology, because it is a transfer of a product from one operating or manufacturing department to another.

Q What did you use as the basis of value?

A The Turner Valley posted price without exception.

Q Can you tell us how that price came to be posted?

A I am afraid I cannot. I have only been in the oil industry now 16 years. I started in with the crude oil production department, and they advised me periodically that the posted price was this and this, and whenever a change occurred, when it has gone up or down, I have been advised. Sometimes it is in the Oil & Gas Journal, and in some of the Oil & Gas

R. Donellan,
Cross-Exam. by Mr. McDonald.

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papers, but not always.

Q Is this particular price one that has been verified by the Oil Controller's office?

A I am just wondering how to express it, and whether my evidence is going to be worth while. I am getting confused with the other. No, this is the posted price. The Oil Controller's office was interested but I do not think directly. I understand that he always gave his paternal consent to it, but I do not think there is any official endorsement by the Oil Controller.

MR. HARVIE: You just do not know?

A No, I do not know.

Q MR. McDONALD: Well, can you tell me if this absorption gasoline is of a type and quality that is manufactured elsewhere and could be imported?

A Oh yes.

Q And the credit that you have allowed is it the credit that bears the same relation to the value of this product if it had been imported?

A Oh yes, definitely. It has the same direct relation in it. In fact, our manufacturing department at the moment is working out computations as to whether we can maintain a 45 pound or whether we cannot, and the yardstick is the competitive importing cost of 45 pound product. You can get a quotation on the 45 pound product.

Q Delivered at the Calgary Refinery or the Moose Jaw?

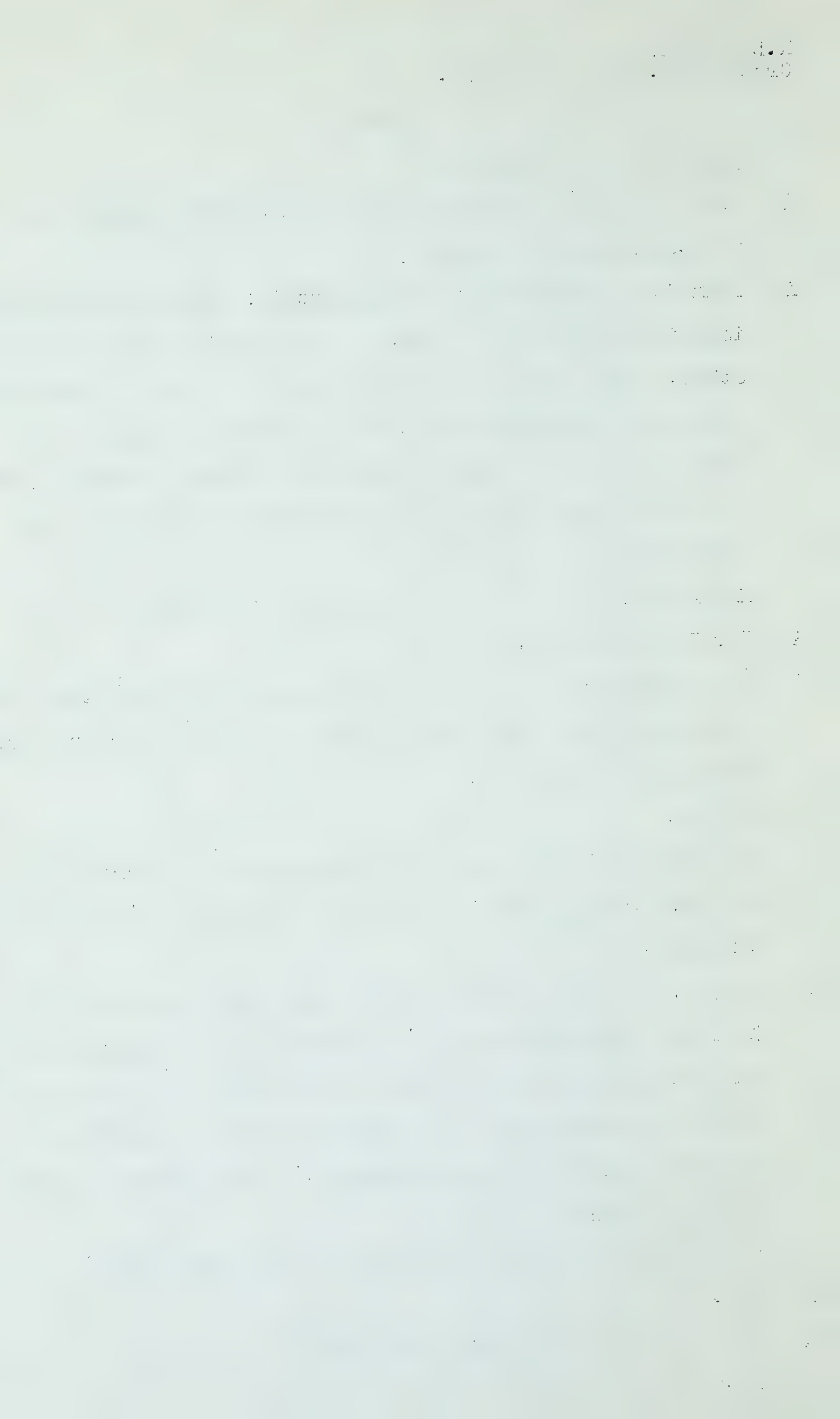
A Yes.

Q Have you that information available?

A No.

Q Do you know when it will be available?

A I can telephone and see if I can get it for you. I can make



R. Donellan,
Cross-Exam. by Mr. McDonald.
Cross-Exam. by Mr. Chambers.

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inquiries at noon and see if I can get something for you.

Q Mr. Chairman, Mr. Donellan has filed some statements which I asked him to prepare. I was going to ask him to prepare Exhibit 162, and I want to have an opportunity of looking the statements over before I finish with him.

THE CHAIRMAN: All right. Mr. Steer, any questions?

MR. STEER: I would prefer it if I might reserve my rights with regard to cross-examination. I have only seen these statements for the first time this morning.

THE CHAIRMAN: Mr. Chambers?

MR. HARVIE: I might say, Mr. Chairman, just for the purposes of the record, that they were given out on Friday as soon as they were prepared according to your directions.

MR. BLANCHARD: Exhibit 161?

MR. HARVIE: Yes, Exhibit 161.

.....

CROSS-EXAMINATION BY MR. CHAMBERS.

Q Mr. Donellan, will you turn to page 5 of Exhibit 161, and look at the third column, the dollar column, the amount paid to producers, and I am just asking this as a matter of curiosity, probably, but I notice those figures are all in even dollars, and I am wondering if that is the computed amount or are they the actual amounts?

A I am afraid I will have to find it out for you. I gave instructions for it to be the actual amount, and I will just confirm that.

Q All right.

MR. HARVIE: I think, Mr. Chambers, those figures are the actual amounts to the nearest dollar.

Q MR. CHAMBERS: Well, you will find it out, Mr. Donellan?

R. Donellan,
Cross-Exam. by Mr. Chambers.

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A I will verify it for you.

Q Now, as to the type of product, as I understand it, up until 1942, was it, the plant turned out a 26 pound product?

A I have that on page 1, the various types. There is the 20 pound product. We started off with a 20 pound product, and then there is the 24 pound product in 1939.....

Q MR. HARVIE: Excuse me, Mr. Donellan, I think you can maybe answer Mr. Chambers' first question as to the exact figures by referring to the first page of Exhibit 162, where the exact figures are.

A Oh yes.

Q For instance, where Exhibit 161 shows \$8,929.00 even, Exhibit 162 carries it forward into the cents, \$8,929.49.

MR. CHAMBERS: I see.

MR. HARVIE: And so forth in each of the years.

MR. CHAMBERS: So that on Exhibit 162 the actual figures are shown.

MR. HARVIE: Yes.

A I have no hesitation in saying that Exhibit 162 is according to the books. We were talking about the product produced. We went into the 45 pound product in 1943.

Q MR. CHAMBERS: And that is the product that constitutes the product that was processed by the alkylate plant?

A Correct.

Q And the commencement of the manufacture of that product was due to a situation that arose in connection with the war?

A Right.

Q And, as I understand it, in 1945, you still manufactured that product?

A Yes.

Q Are you still doing it now?

R. Donnellan,
Cross-Examined by Mr. Chambers.

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A Still making a 45 pound product at the moment.

Q But that as to whether or not it will be manufactured in the future, or indefinitely, has not been settled.

A It has not been settled by our manufacturing superintendent.

Q Can you tell me this, Mr. Donnellan, that whether or not you will continue to manufacture it will depend to a certain extent on the market demand?

A That combined with another factor. The market demand, that, of course, is the over-riding reason, and also the type of crude which is being used. I understand it, certain crudes which are, I do not know enough about the manufacturing operations but I am trying to resolve this, and get finality, you tell us what crude we are going to run in our refineries and we will tell you whether we will use the 45 or 26 pound product.

Q Well, if the 45 pound product is manufactured, as I understand it with the same raw wet gas, you get a larger amount of a 45 pound product than you do with the other product, is that right?

A Yes, almost double.

Q Almost double?

A Yes.

Q In other words, your gross realization on the basis of present prices from a 45 pound product, is more than it would be from a 26 pound product?

A That is demonstrated by referring to Exhibit 162. You will notice in 1945 we processed 6,376,000 M.C.F. of gas and got a value of \$191,000.00. The nearest year that I can find for comparison is in 1941 we processed 6 million, nine, and we got a value of \$125,000.00. In other words, we put more through. There has been some change in the posted price, but it is negligible, and the proceeds in the one case were

R. Donellan,
Cross-Exam. by Mr. Chambers.

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\$191,000.00 as against \$125,000.00.

Q Is there at present a posted field price for the 45 pound product and another posted field price for the 26 pound product?

A There is a posted field price for the composition of these products. It is a complicated formula that whatever the product is, it is so much for the constituent parts. The posted field price is, I understand it, not for the 45 pound product as such, or the 26 pound product as such. The posted price covers so much for the component parts and you have an analysis of it.

Q And your posted field price as it is now, that is no indication as to what the posted field price will be a year from now or five years from now and so on?

A Not at all.

Q That is governed by various factors?

A Yes.

Q Thank you.

(Go to page 6094)

T-2-1 10.50 A.M.

R. Donellan,
Cross-Exam. by Mr. Fenerty.

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CROSS-EXAMINATION OF THE SAME WITNESS BY MR. FENERTY.

Q There are a couple of questions I would like to ask Mr. Donellan. Mr. Donellan, when we speak of the posted field price for this product as noted at the top of page C in this Supplementary Report you say: "This Absorption Plant manufactured a product used in other departments, not a final product for sale."

A Correct.

Q So that the price of this product and the values allowed the producers for their 20%, or whatever they might get, is an arbitrary figure or is it a competitive price as between manufacturing and importation?

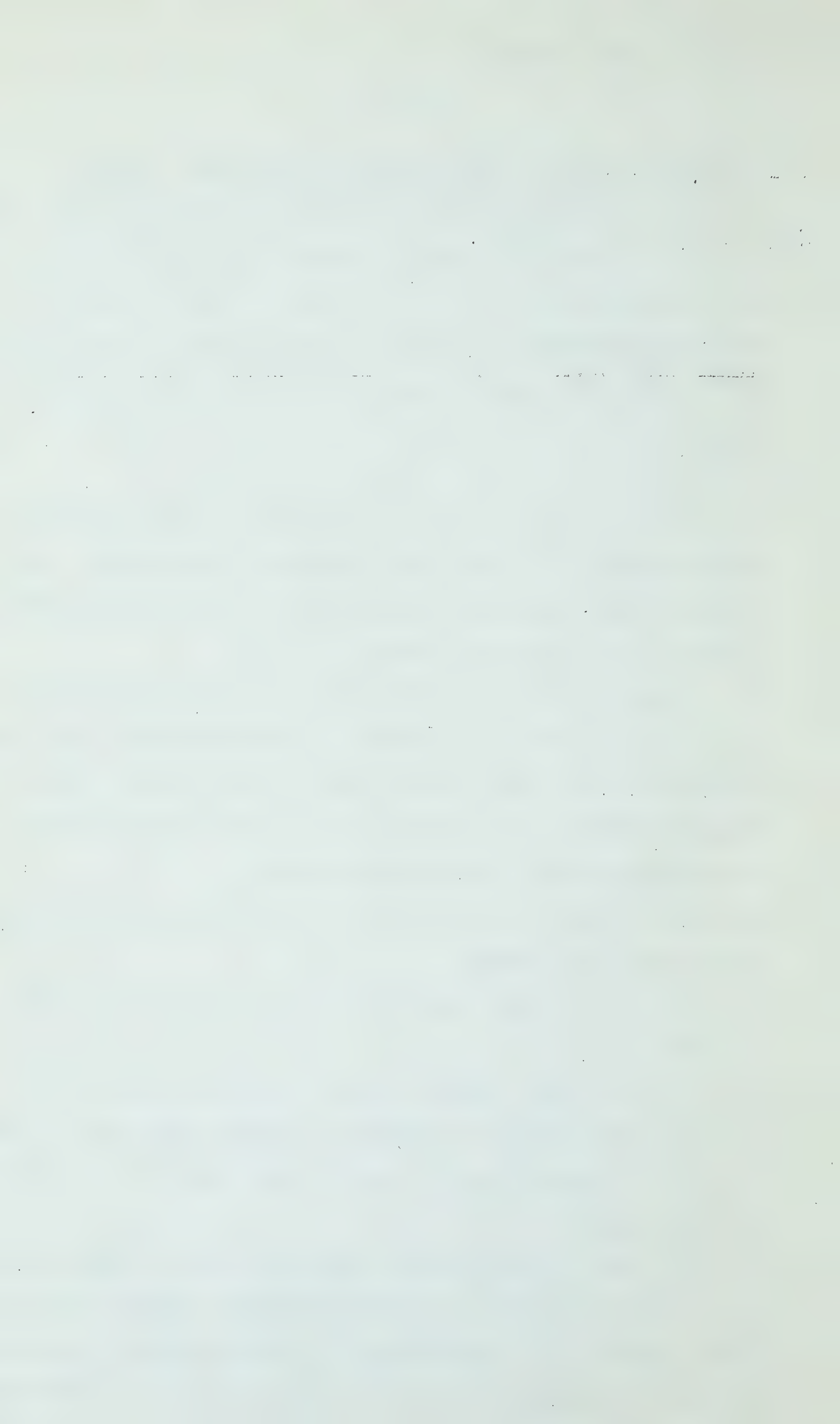
A It is the posted field price and I think Mr. McDonald is worrying about the same thing. It is the posted field price. Whether it is a competitive price or not I do not know. I know ever since I have been connected with the industry, I am advised of the posted field prices.

Q It is not based on what it would cost you to get that product from some other place?

A Our company in itself has got nothing to do with posting the price at all.

Q But I am now away from the actual posting of the price. The fact is it bears no relation to the competitive price or what you would have to pay for that product if you did not have a refinery.

A We would look to the Oil and Gas Journal and various mediums for posted prices and wherever the Turner Valley posted price, well if they said it was worth ten dollars and we could get it down in Chicago for five dollars, we would not pay the posted price here.



R. Donellan,
Cross-Exam. by Mr. Fenerty.

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Q All I want to know is this, does it in fact bear any relationship to what that product would cost if you had to go out and buy it?

A I cannot answer that, I do not know.

Q As a manufactured product?

A I do not know.

Q I gather from that statement that it is not a final product for sale. It is a product used in other departments, that the British American Company had been content to proceed with its absorption gasoline manufacturing operations up to the end of 1944 without access to the Calgary market for dry gas because of the fact you mention here that this is a product used in other departments. It is not for sale. It is required in connection with the refinery operations?

A That is right.

Q And that situation still existed in 1945?

A It is continuous. We had a plant and we had a refinery and the refinery could use this product.

Q It is a product you require for their operations?

A That is right.

Q And you required it in 1945 if you were to carry on the other operation?

A Yes.

Q The refinery operation?

A The refinery operation.

Q Yes. So that that is a necessary operation for the operating of your refinery operations whether or not you have any dry gas operation?

A I do not know if it is necessary but it is available and we are using it. As I reported to Mr. McDonald, we could get

R. Donellan,
Cross-Exam. by Mr. Fenerty.

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it from other sources.

Q As far as the gasoline is concerned it is not only because of it being available but it is a thing you have to have?

A We have to have it for our own manufacturing purposes.

Q Just one other question with regard to this 20% income tax depreciation or charge for income tax purposes. You say: "This rate does not reflect a proper charge for depreciation actually incurred in the operation of the Plant." You got that 20% rate from the department in view of the probable short life of the Turner Valley field?

A That is right.

Q Now I take it that you got that favourable ruling as a result of representations made by the British American Company to the Department?

A That is right.

Q They were representations of actual facts as they existed?

A No, they were representations of opinions.

Q Your opinions as to actual facts?

A Yes. We were just coming into the Turner Valley field for the first time and we did not know whether there was going to be a continuing supply or whether there was not. We thought we should have the right to charge 20% per annum.

Q What I am getting at is, they were representations and not misrepresentations?

A Yes.

Q They were bona fide representations of your own?

A Yes, sir, that is right.

Q And your opinions were based on conditions, I suggest, not of Turner Valley as a whole but upon the South end of the Valley tributary to your Plant?

R. Donellan,
Cross-Exam. by Mr. Penerty.

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A Well I do not think we would have had any consideration to wells and our own plant. I was after getting the maximum tax concession in respect of the Turner Valley investment.

Q But it was the conditions surrounding there, the gas that you could get from the wells now and probable future wells tributary to your own plant. That is what you based your representation on?

A I did what was just general business conservatism and I said: "Well I want to make sure I get the best tax allowance I can."

Q Let me put it this way. You did not for instance make any representation to the department that there was a possibility of a large increase in production by expansion northwesterly, at the North end of the field?

A Back in 1936, no.

Q It was with reference to the conditions surrounding your own area?

A As I knew them at that time.

Q Exactly. Is there any change in those conditions other than the lease of life given to the plant by the installation of the low pressure lines and this equipment we have been discussing?

A I cannot answer that. I do not know.

Q So that as far as that 20% allowance is concerned in its relation to the original installation and high pressure gathering lines, you think that was based on representations which time has borne out?

A No, I think time has shown that I was a little bit too pessimistic because I gave got my plant down, the 20% is writing off these gathering lines over a period of 5 years and we have already filed a statement showing that we have

R. Donellan,
Cross-Exam. by Mr. Fenerty.

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been in operation for 8 years.

Q Is it not a fact that the thing that has happened since this representation was made is the change in the picture as you have a longer lease of life because of some low pressure gathering lines?

A I do not think that is the whole picture, no.

Q Could you have anything else?

A Yes. Because the low pressure gas gathering lines, I have a book value here at the end of 1944 of \$69,000.00 and if there had not been an ounce of low pressure gas or a foot of low pressure gas sold I have definitely demonstrated that I had over-charged the operations with depreciation and while I was responsible for getting that rate, it was not to the advantage of the Company. I would have been far better off not to have muddied the waters by asking for that extension of time.

Q Let us disregard the recent installations and including the low pressure gathering lines. Let us take the original operations with the high pressure lines. Now is there any change in the physical picture which caused the representations you made to the Department now appear unsound?

A I cannot answer that.

Q What?

A I cannot answer that.

Q Do you know of any?

A I do not know of any. All I know is the basic conditions on which I asked for that special concession were such broad generalities that nobody knew anything. I simply applied to the tax office for permission to operate on that basis of 20% and they said: "That seems to me, Mr. Donellan, to be reasonable and we will okay it." Now I cannot say at the

R. Donellan,
Cross-Exam. by Mr. Fenerty.
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end of five years that Donellan proved to be all wrong. I do not see any changed conditions. I cannot answer your question. We are trying to relate the recovery on the investment and the tax concession to a totally different subject altogether.

Q Shall we put it this way, today you do not know anything wrong with that 20% or the allowance of it?

A I know it has cost my company a lot of money. I know I paid a tax of 15% and now I am paying a tax of 40%.

Q You do not suggest that the fact that it costs the company a lot of money changed the physical facts as they exist?

A I still do not think there was any connection with the physical facts and the 20% concession in the first instance.

THE CHAIRMAN: Are you ready to cross-examine, Mr. Blanchard?

MR. BLANCHARD: No, Mr. Chairman, but there are a number of things I would like to examine him on now before I start my cross-examination.

.....

CROSS-EXAMINATION BY MR. BLANCHARD.

Q I was just going to ask one question. As I understand the contract made with His Majesty the King, represented by the Minister of Munitions and Supply, that is Exhibit 147?

A Yes.

Q That is the only agreement relating to the installations for the production of alkylate that the British American has entered into?

A That is right.

Q And was alkylate made at the plant of the British American, The British American Oil refinery?

R. Donellan,
Cross-Exam. by Mr. Blanchard.

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A No. The only production of alkylate was at the plant operated by the Imperial.

Q There were no additions or anything of that kind made at the British American refinery?

A Yes, there were additions made at the Calgary refinery because this alkylate plant takes a 45 pound product from the Turner Valley Absorption Plant and it takes what is known as B. B. Feed stock from the Calgary refinery. It takes those two raw products and manufactures alkylate. Now there was a corresponding expenditure of a larger amount, I think that is in the contract, at our Calgary refinery which was the feed preparation unit in order to get the feed stock that was to go over for the manufacture of the alkylate.

Q MR. STEER: Does the alkylate then go back to the refinery?

A No. The alkylate was, during the period of that contract, sold to the Government, the Allied War Supplies and since the termination of that contract we take our share and put it in storage tanks and the Imperial takes theirs.

Q There is not any high octane gasoline made here in Calgary?

A Oh yes.

Q Where is it made?

A At our Calgary refinery. They use the alkylate. We used to buy it through the Allied War Services Limited.

MR. HARVIE: I was just saying there is really a shuttle service of small pipelines between the two refineries. I think there have been as many as 5 or 6 operating between the refineries dealing with products that ultimately ended up with the final

A I might clarify the picture so there is no misunderstanding.

R. Donellan,
Cross-Exam. by Mr. Blanchard.

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As I say the raw material comes, in our case; from two sources, the Turner Valley Absorption Plant, with its 45 pound product and the B.B. Feed stock from our Calgary refinery. These two raw materials go to the Imperial plant, and alkylate is produced. The resulting by-product after they have manufactured the alkylate, is shipped back to our Calgary refinery.

Q The British American refinery?

A Yes. The Imperial Company refinery takes their share of the by-product. The finished product, the alkylate, during the continuation of that contract was all sold to this Allied War Services but since the cessation of the contract it goes into storage tanks and just made that much inventory.

Q MR. BLANCHARD: You are using it now?

A We are using it, yes, or putting it in storage.

Q Do you anticipate you will continue to use it and continue to produce the 45 pound product?

A I cannot get any confirmation from our manufacturing department. We have continued and we are doing so right at this moment. We are manufacturing the 45 pound.

Q You use the expression B.B. Feed stock?

A Yes.

Q Excuse my ignorance, but what is B.B.?

A I wish you had not asked me that because I do not know. That is just a term that comes to us and that is used.

Q You and I agree for once. I did not know whether it had any particular significance.

A No, it is the name of the product that comes out of the Calgary refinery.

Q As I understand it, or as I do not understand it, but I am hoping to, the price of 19.03 cents which was to be paid for

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Cross-Exam. by Mr. Blanchard.

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an Imperial gallon, that was for the alkylate?

A That was for the finished alkylate.

Q That was for the alkylate?

A That is right.

Q And what was paid by Imperial for the B.B. Feed Stock? Was the B.B. Feed Stock paid for by Imperial to you?

A How do you mean?

Q Well you furnished certain

A We furnished the B.B. Feed Stock.

Q Who paid you for that?

A Well we got paid through production. We contribute our B.B. Feed Stock and we contribute our 45 pound and the resultant product was made and we got our share of the value of the resultant product. Nobody paid us for either of them.

Q The value of the alkylate?

A The value of the alkylate was 19.03 cents. In my internal books I used the same formula for the posted prices. Nobody paid us for it. We simply contributed from the Calgary refinery and we contributed from the Turner Valley the products which made the product which sold for 19.03 and the proceeds of those sales were turned over to us. I could allocate it any way I wanted to.

Q You got 19.03 cents a gallon?

A For what was sold until the termination of that contract.

Q The price you have fixed per gallon for your absorption gasoline in the Valley, the 45 pound product is 5 cents a gallon?

A The posted price, whatever that was.

Q So that there is 14.03 cents a gallon difference between what you got for your product that went to the manufacturing.....

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for the alkylate product and the 45 pound product in your gasoline plants. There is a spread of 14.03 cents?

A Yes, there is a spread to take care of the operations

Q What is represented in that 14.03 cents? Is there a breakdown of the costs to show how that is arrived at?

A I have not prepared myself for that. If we are going to go into that one Well, I know there is no bonanza in it.

Q MR. CHAMBERS: Is the pipeline rate in that spread?

A Yes. The figures as I received them, that Mr. Blanchard has just quoted me, are the actual posted price at the plant for the contributory stock and the sale price of the alkylate. Now we have to ship from the plant to the alkylate plant and we have the manufacturing at the alkylate plant and we have to take our share of the losses. The losses in this product are pretty wicked unless you go to high pressure vessels and what have you to take care of it. That is another branch of the industry altogether I am not prepared to comment on.

Q MR. BLANCHARD: All I was wondering was how you arrived at the amount that should be credited to the Absorption Plant, that is that 5 cents a gallon as against the 19.03 you received from the Government.

A I would not say as to that product any more than I would say that the mere fact we sell aviation gasoline up in the North country at very very high prices, I say Turner Valley Absorption Plant has got its full credit when it has got the posted price. That is the yardstick of it.

Q The posted price of the 45 pound product, on the average over some years, how does that compare with the price of the lighter product?

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A You mean how does

Q We can ascertain that by breaking down these figures?

A Yes. That is just really an analysis. I cannot give it to you offhand.

Q I do not know that I have learned anything or obtained much information. I do not know to what extent this information is valuable, that is the breakdown of the 19.03 cents. Perhaps we could have time to consider that. I am not really at the moment, sir, ready to go any further.

THE CHAIRMAN: That seems to be all at the moment. These gentlemen wish to have an opportunity to read your submissions and then examine you further. When will you be ready to do that?

MR. STEER: I will be ready tomorrow morning, sir, if I have any.

MR. BLANCHARD: I can be ready by 2 o'clock.

THE CHAIRMAN: All right. Have we anything to go on with this morning? Is Mr. McLellan ready with his

MR. BLANCHARD: When I said I could be ready by 2, I was assuming that we were going to adjourn now. Otherwise I will not be.

THE CHAIRMAN: Well what do you gentlemen wish to do? Adjourn until 2 o'clock?

MR. CHAMBERS: So far as Mr. McLellan is concerned, I prefer to put him on tomorrow. There is certain information as you recall that he was asked for that we have not had time to get.

MR. STEER: I will endeavour to be ready by 2.

MR. McDONALD: Mr. Plotkins mentioned to me that Mr. Gowry of Regina will be available to give evidence in regard

R. Donellan,

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to the matters raised by Mr. Plotkins the other day and he will come down from Regina at any time convenient to the Board by giving him notice at noon the day before.

THE CHAIRMAN: It depends on what we have to keep us going tomorrow.

MR. McDONALD: It will possibly be a little dangerous, as it were, to bring him in tomorrow.

THE CHAIRMAN: No, it might not be wise for him to come tomorrow. We will adjourn now until 2 o'clock.

(At this stage the Hearing was adjourned until 2 P.M.)

.....

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3-2-1 - 2 P.M.

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2 P. M. Session.

MR. BLANCHARD: Mr. Chairman, I was going to ask, if I might request Mr. Donellan to stand aside and I will put Mr. Hamilton in the box for a few questions, to give evidence of certain computations he has made and then I will ask Mr. Donellan if he agrees with the results.

THE CHAIRMAN: All right.

R. W. HAMILTON, having been recalled,
Examined by Mr. Blanchard, testified as follows:

Q Mr. Hamilton, you have already been sworn ?

A Yes.

Q And I believe that you have made certain computations based on the information contained in Exhibits 161 and 162 ?

A On 161, sir. 162 was not available at the time I made these computations.

Q Now I understand the computations you have made are based on a theoretical rate of return of 15% gross ?

A Yes.

Q And will you give the Board the result of your computations ?

A Yes.

MR. CHAMBERS: This is Exhibit 161 you are talking about ?

MR. BLANCHARD: Yes, I would like to have had this extended but during the noon hour we did not have an opportunity to do so.

A I would be happy to make these details available to Counsel at any time they wish them but I think perhaps that the main import can be readily gathered.

The purpose of this computation was to indicate if possible the effective amount of investment in the

R. W. Hamilton,
Dir. Exam. by Mr. Blanchard.

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British American absorption plant at the end of 1944. The calculation is in some respects theoretical in that it is based on the historical rate of return of 15% gross, as Mr. Blanchard said.

Throughout the period of 1936 to 1944 the British American Company invested in plant at cost a total of \$414,503.00, of which the major portion, almost three-quarters, was invested in the year 1936.

As compared with this amount of \$414,503.00-

Q MR. HARVIE: Mr. Hamilton, I was late in coming in and I wonder if I might interrupt now, I think possibly I missed and I do not just appreciate what information you are giving and I wonder if you would explain that again ?

A I think perhaps sir I can do that in the development of it and the conclusion will be readily apparent. It will only take me a minute or two and I can explain that.

THE CHAIRMAN: What Mr. Blanchard asked was if Mr. Donellan would stand aside for a few minutes in order that Mr. Hamilton might give the computations and then Mr. Blanchard proposed to ask Mr. Donellan some questions as to whether he agreed with these, is that right, Mr. Blanchard ?

MR. BLANCHARD: Yes, Mr. Chairman.

WITNESS: As compared with the amount of \$414,503.00 which the Company has invested in plant, in cash money we will presume, during the years 1936 to 1944, it has had returned to it, - again I presume in cash, - the amount of \$415,878.00, representing depreciation and earnings, subject to tax. In other words it has recovered during that nine years or eight and a half years of operation, approximately the amount of its original investment, if you ignore earnings on the investment

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Dir. Exam. by Mr. Blanchard.

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during the meantime.

Q MR. CHAMBERS: Is that \$415,878.00, that is the return in cash by way of depreciation ?

A Return in cash by way of depreciation and earnings, the combined, blended figure, to avoid the problem which arises in determining what is fair depreciation.

Q MR. HARVIE: And that is over and above operating, out of pocket expenses ?

A Yes.

Now then if you estimate that an operation of this character, and taking into account the physical and economic hazards, should return 15% gross out of which income taxes must be paid, you are enabled to work out what is the effective investment at a given point and the focal point which was selected was that of December 31st, 1944, the latest date to which Exhibit 161 was brought. If you take the investment as it stands at the beginning of each year and add to it the earnings which should have been made on that investment and 15% gross and deduct from it the actual amount recovered by way of combined depreciation and net earnings, and carry that calculation through each year from 1936 to 1944, you derive a figure of \$479,153.00, which represents the unamortized investment plus the deficiency in earnings of the absorption plant as at December 31st, 1943, predicated upon an assumed desired rate of return of 15% gross.

Q MR. BLANCHARD: What is that main figure again ?
then

A \$379,153.00. That is projected through 1945, there being certain information which was not available and taking into account the fact that a portion of the investment in 1945 representing the gathering line, would have been transferred to the Utility

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Company, the British American Utilities Limited, and taking into account the approximate earnings in 1945 less expenses, making an estimate of the probable administrative expenses and the investment as it stood at the end of 1944, of three hundred and ninety-seven dollars odd, it remained roughly unchanged.

Q MR. BLANCHARD: Now that may be so, but if you credit the Company with 15% gross per annum rate of return, the capital investment has been reduced only by about thirty-five thousand dollars, amortized by that amount or depreciated by that amount ?

A That is correct, sir.

Q Yes ?

A Looking at it in another way, you might argue that the three hundred and ninety seven thousand dollar figure which I suggest as being the unamortized investment and the deficiency in earnings as at December 31st, 1944, could be made out of the stated book value of the plant at December 31st, 1944 of close to seventy thousand, and three hundred and nine thousand dollars by which their earnings were short of the 15% annual return gross.

Q Yes. Now you have not taken into account in computing the amounts that represent the investment, you have not taken into account the transfer of the gathering lines to the Utility ?

A Not in the figures I quoted as at December 31st, 1944.

Q In your submission WH-16 which was Exhibit 134 and in which you computed the investment at ninety one thousand dollars on the basis of historical cost less through-put depreciation, I think you arrived at ninety-one thousand dollars on that basis, whether it is right or wrong ?

A Approximately ninety-one thousand,

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Q And if that were correct it would be a deduction from the capital investment figure which we may arrive at?

A That could be one way of looking at it, Sir, yes.

Q Now in these computations, that is in the submissions which you based your computations on, I understand that there has been nothing taken into the capital account relating to the installations made under the contract with the Allied War Services or the Minister of Munitions and Supply, I should say?

A My calculations are based on the figures contained in the Exhibit 161 and I understood in that submission the capital investment and the deposit received from the Dominion Government are both excluded.

Q MR. DONELLAN: I wonder if I might ask a question, in 1945 I understand you make some allowance for the value.....

A I used the approximate figure of ninety thousand.

Q You used the figure of ninety thousand?

A Yes, I agreed with the amount but not with the adjective.

Q MR. BLANCHARD: Mr. Chairman, I think perhaps we had better have these figures extended from year to year, from 1936 to 1945.

THE CHAIRMAN: Yes, I think it would be better. It could be followed much easier.

MR. CHAMBERS: Will you give it an exhibit number now?

THE CHAIRMAN: Yes, we could, that will be Exhibit 163.

MR. BLANCHARD: This is the only copy we have and we do not want to part with it, but we might leave that number open for it.

MR. CHAMBERS: Yes.

R. W. Hamilton,
Cr. Exam. by Mr. McDonald.

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STATEMENT TO BE PRODUCED TO BE
MARKED EXHIBIT 163.

MR. HARVIE: I would be very glad to have
sufficient copies made and it can be marked now as it has
been.

WITNESS: It might be copied into the record.

MR. HARVIE: I think it is more convenient to have
these as separate exhibits, and we will be glad to look after
that.

THE CHAIRMAN: Will you let Mr. Harvie have that and
he will have copies made?

WITNESS: Yes.

THE CHAIRMAN: Now any cross-examination of Mr.
Hamilton at this stage?

MR. HARVIE: I have no idea at all of what these
statements mean.

THE CHAIRMAN: All right, you will have an opportunity
to cross-examine later if you wish.

Q MR. McDONALD: Just one thing, I take it, Mr. Hamilton,
that your figure of \$379,153.00 in the investment remaining
at December 31st, 1944, remains, that is one figure you give?

A Yes.

Q Now then, at December 31st, 1945, you said it would remain
about the same?

A Well within thirty or forty thousand dollars. I cannot tell
you, Sir, without knowing what valuation was to be placed on
the high pressure gathering lines that were transferred to the
Utilities.

Q I understand that, but there shows a profit, a net profit for
1945 of ninety-five thousand dollars, according to Exhibit
162?

R. W. Hamilton,
Cr. Exam. by Mr. McDonald.

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A That is before the producers' share, I think, Mr. McDonald.

Q No, I do not think so?

A Perhaps Mr. Donellan can correct me.

MR. DONELLAN: That is the net operating revenue and there are a lot of other items which I put into the record this morning.

MR. BLANCHARD: Less the producers' share?

MR. DONELLAN: Yes.

WITNESS: It did not show.

MR. DONELLAN: That is comparable to the other statement where the excess profits of administration and depreciation are shown.

WITNESS: Well I stand corrected on that, because I did not understand the producers' share had not yet been deducted from that figure.

MR. DONELLAN: Oh yes.

WITNESS: It does not show as such.

Q MR. McDONALD: Then what I am getting at, the adjustment of say the investment in the high pressure lines and the net operating profits earned, less depreciation in earnings of 15%, still remains to be taken into account?

A Yes.

Q And it might result in something say three hundred and fifty thousand?

A Yes, easily. If the producers' share has already been deducted, it could easily come to a figure of that order or less.

MR. DONELLAN: So that there is no misunderstanding on Exhibit 162 I show natural gas \$38,157.42, that is the payment.

WITNESS: Then my last answer to Mr. McDonald

R. W. Hamilton,
Exan.by Mr. McDonald.
Cr. Exan.by Mr. Fenerty.

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would govern, it would be down in the order of three hundred and fifty thousand, I would think would be the investment at the end of 1945, within a few thousands anyway.

MR. McDONALD: Thank you.

.....

CROSS-EXAMINATION BY MR. FENERTY.

Q One question I would like, Mr. Hamilton, have you any suggestions to make as to the purpose of, it seems to me, a partial reconstruction on the basis of an utility, what is the object of it?

A I would not wish my evidence to be interpreted, that the absorption plant should be treated on an utility footing. My purpose in putting forward this calculation and the end results of the calculation, was to qualify the force of evidence that the plant had been written off.

Now as has been stated before, ^{the} depreciation as booked is, - I hesitate to use the word or term, - but is a mere bookkeeping entry, unless it can be established that the depreciation as booked was earned, and the purpose of this calculation was to demonstrate whether the depreciation as booked had in fact been earned or not, and the extent to which it was earned or not depends entirely upon what percentage of earnings one has in mind as being appropriate in the particular case.

Q You will remember when we were discussing depreciation before an utility came under regulation for the first time?

A Yes.

Q Certain theories were advanced which might, if they were correct, or given effect to, might adversely affect the amounts ultimately paid by the consumer, you remember that?

A Yes.

R. W. Hamilton,
Cross-Exam. by Mr. Fenerty.

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Q For depreciation?

A Yes.

Q Of something being put under a rate base for the first time, so then as I understand it, your idea and the idea perhaps of a lot of us, is that there are certain disadvantages which are necessarily extended to an undertaking being made a public utility, now I do not understand you to say, do I, that where an undertaking is not a public utility, the undertaking still might get all the advantages which would accrue if it were one?

A Not necessarily, sir.

(Go to page 6115)

M-2-1 - 2.20 P.M.

R. W. Hamilton,
Cross-Exam. by Mr. Fenerty.
Cross-Exam. by Mr. Chambers.

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Q You would not have the public on one side getting the disadvantages because it is a public utility and the company on the other side not being a public utility getting its advantages ?

A Not necessarily.

Q All you know is you have made this comparison because somebody has asked you to ?

A Oh no sir, I made the comparison because I was interested in it.

CROSS-EXAMINED BY MR. CHAMBERS:

Q You say in the light of what Mr. Donellan has said about the amounts paid to producers that your figure would be about \$300,000.00 at the end of December 1945 ?

A No. I think I assented within wide limits a figure of \$350,000.00 at the end of 1945. I should possibly revert back to 1944 and say the figure at that date was \$379,000.00 subject to what might transpire in 1945.

Q And the difference between \$414,503.00 which was the original overall investment and this \$379,153.00 works out at roughly \$30,000.00 ?

A \$35,000.00.

Q In other words on the basis of this computation the \$35,000.00 would represent the depreciation recovered ?

A Not exactly that Mr. Chambers, but it is on that order. I say not exactly that, for the reason there were some partial investment retirements occurring through the years 1936 to 1944.

Q It would be something in that neighbourhood ?

A On that order within \$10,000.00 or \$12,000.00, one way or the other.

Q But you do not suggest do you that that figure of \$35,000.00

R. W. Hamilton,
Cross-Exam. by Mr. Chambers.

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represents or has any relation to the intrinsic or physical or actual depreciation on the plant equipment ?

A No sir.

Q And would of course have no relation to the depreciation on a throughput basis ?

A No sir.

Q The computation on that basis does it really not amount to capitalization of deficiency earnings ?

A Yes sir it involves just now.

Q And even in a Company that is being set up as a utility for the first time, I take it you would not suggest it being brought under regulation, that its rate base should include any amount representing a capitalization of deficiency of earnings in the past ?

A Perhaps to make this quite clear. I was not attempting to deal with this on a utility footing at all. Can I add this to that Mr. Chambers, that this figure of \$379,000.00 would represent then that if the B. A. Company had borrowed 15% the amounts of money necessary to make the initial instalment and to pay interest on the money which was made available for the acquisition of those assets and were able to borrow cumulatively throughout the period at the end of 1944 it would owe \$379,000.00. That is all it means. That is what it means and all it means.

Q What I am getting at is, let us assume for the sake of argument that these figures are applicable we will say to what is now the Madison set up. And, that that would be the history of the Company, The Madison, or whether it was somebody else that was carrying on this gas business upon the Natural Gas Utilities Act being passed and coming into force in 1944, and that equipment being made a public utility for the purpose of computing the rate base of that utility, would you or would you not

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R. W. Hamilton,
Cross-Exam. by Mr. Chambers.

- 6117 -

recommend that a rate base of \$379,153.00 ?

A I would not recommend that treatment.

Q Then, now here is a Company that is not a utility. I suggest to you that if you proceed on this basis that you are extending to it the benefits of the principle which you would not even extend to a Company being brought under regulation for the first time ?

A Oh no sir. I am not suggesting that \$379,000.00 be adopted as the figure on which the B. A. Company is entitled to a rate of return. I merely present this calculation to show that if you assume 15% to be a reasonable rate of return then they have not in fact recaptured the booked depreciation which appears to have amounted in all to \$344,000.00.

Q Frankly I am not quarrelling, but I am not just clear as to the purpose of this computation ?

A The purpose of the computation was merely this sir, to demonstrate that whereas there has been before a total depreciation of \$340,000.00 throughout that eight and a half year period, that depreciation has not in fact been earned, collected in cash if you assume a rate of return of 15% gross. That is all it means sir. I am still not suggesting that \$379,000.00 is the figure on which a rate of return should presently be computed.

MR. STEER: Why should we be interested, Mr. Hamilton, as to whether or not depreciation has actually been earned. Why should we be interested in that ?

A I am not saying you should. I think you might be and I thought I would volunteer the information which might be of advice and assistance.

THE CHAIRMAN: Thank you Mr. Hamilton.

R. Donellan.
Dir. Exam. by Mr. Harvie.

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MR. HARVIE: It might be that we could look over this statement now and have Mr. Donellan decide whether he can answer it now or in an hour's time.

THE CHAIRMAN: All right.

R. DONELLAN, having been recalled for direct examination by Mr. Harvie:

Q You have had a chance to look over this Exhibit 163 presented by Mr. Hamilton a few moments ago ?

A Yes.

Q Do you agree with the figures or have you any comments to make ?

A No. I am quite in agreement with the figures. I think it is a statement which so long as no more is read into it than is presented in the statement, it is a correct presentation of the facts and the facts are that that statement is based on the entries in the books of the Company and I am quite in agreement with it as representing what it says it represents.

If we want to develop as to the real earnings of the Company as I pointed out in my evidence this morning I think an adjustment should be made for such items as administration. Taking the statement as it was prepared, it is correct and I am quite in agreement with it.

Q And have you anything further to add to your evidence of this morning ?

A I have another Exhibit which is ready for filing. I mentioned it this morning.

Q That is a new subject ?

A Yes, another subject.

Q In connection with the subject you were on this morning ?

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Dir. Exam. by Mr. Harvie.
Cross-Exam. by Mr. McDonald

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A No. I am ready to attempt to clarify what I said this morning.

MR. HARVIE: Then perhaps if there is any cross-examination before it is filed as an Exhibit.

THE CHAIRMAN: Mr. McDonald ?

A There is one comment I would like to make. Mr. Hamilton called my attention during recess to the computation of income tax. You remember I read into the record a statement on the tax, running into \$40,000.00 but I simply made that computation on profits. It should have been adjusted for allowance in years when there was an operating loss accordingly and to that extent it is not totally correct.

THE CHAIRMAN: The total figure will be somewhat less ?

A Yes, than the \$40,000.00.

CROSS-EXAMINED BY MR. McDONALD:

Q MR. McDONALD: In regard to Exhibit 162, Mr. Donellan. You have net operating revenue depreciation and administration \$95,726.40 ?

A Right.

Q Now will you tell me now what you estimate the administration to be ?

A Well I brought that out. It is not on the schedule because I restricted my schedule to the facts in the books. I did make an approximation. If I was adjusting administration on its actual basis it would be approximately \$15,000.00 as nearly as I am able to determine it.

THE CHAIRMAN: Where did you get that figure, Mr. McDonald, you spoke of ?

MR. McDONALD: That is on Page - a sheet in Exhibit 162.

THE CHAIRMAN: My point is this that maybe a month or two from now, two months from now, I may have to do a tremendous lot of hunting to find that figure. If I can identify it by a page?

R. Donellan,
Cross-Exam. by Mr. McDonald.

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MR. McDONALD: It is the third page of Exhibit 162. I am sorry Mr. Chairman I meant to identify that.

THE CHAIRMAN: That is the little page ?

MR. McDONALD: Yes.

MR. HARVIE: It is really the second statement. The first two pages are the first statement.

Q MR. McDONALD: As far as the book entries would be concerned the depreciation you would charge in addition to administration would be the depreciation on approximately \$67,000.00 that remains undepreciated so far as the books ?

A Yes. You will see in the supplementary notes and the transcript I put in this morning, the depreciation on the book value was \$3025.00 and I estimated an additional \$3,000.00 for the Alkylation plant, you will recall, \$6,025.00 is what I used in those supplementary figures I gave you.

MR. HARVIE: It is beyond \$38,000.00 because the high pressure lines and water systems would be out ?

A There would be no fully depreciated assets entering into it so it would.....

Q It would not include that ?

A No.

Q It cuts it about half ?

Q MR. McDONALD: That would be on a ten year basis ?

A No, that is continuing the policy of depreciation. You are talking now of my book entries and that would be on the present policy of taking the rates I have allowed for tax purposes.

Q 20% ?

A 20% in some cases, 10% in others but no relation to future periods.

H-3-1 2.40 p.m.

R. Donellan,
Cross-Exam. by Mr. McDonald.

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Q MR. STEER: Have you the second statement of Exhibit 162 there?

A Yes.

Q How do you read the third item?

A Slop returned setting up Turner Valley stores, etc. I would just explain that, that is the slop oil that was returned to the refinery that was given a credit during 1945, or 1944, I should say, in order to save staff, we had so much difficulty in getting staff that we took all the stores and discontinued the stores' account in 1945, or rather 1944, and when we set that up in stores again in 1945, I brought it down as sundry revenue. It is really an offset.

Q MR. McDONALD: With regard to income tax in 1945, Mr. Donellan?

A Yes.

Q Can you estimate what would be payable in 1945?

A No, I have not estimated that. It is a flat 40%. There are so many unknowns. I did take an estimate of the income tax on the three alternative computations.

Q Yes?

A And the income tax is a straight 40% of the net operating revenue. The tax, as I pointed out this morning, was incomplete, and it was bound to^{be} incomplete until I knew what I was going to do with the high pressure lines, for example.

Q Now with regard to income tax, Mr. Donellan, would you agree with me that there are two approaches to it. First, it could be approached on a flat basis of 40%?

A Yes.

Q Or 36% or 30%, whatever happens to be payable?

A Yes.

Q According to the Act as it may be in force?

R. Donellan,
Cross-Exam. by Mr. McDonald.

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A Yes.

Q And that would be a theoretical calculation on the earnings or the actual figure paid could be taken into account. What I have in mind is this, is it not possible that the British American could file a consolidated return which would actually mean the income tax payable by the sundry parts of the company may be less than 40%?

A Well, it is a very difficult matter to say the actual amount payable. It is hard to say when you get a plant such as this, which is one part of a consolidation. I am thinking I may have had certain allowances or disallowances in respect of one of these companies. I recall a few years ago it is now, as a result of that the Tax Department may allow or disallow certain entries, to give the effect of that additional charge or that additional credit to the small portion of earnings coming from one section of the company is very difficult. We would, on the other hand, be quite willing to say that the total earnings of British American Oil Company were X dollars, the actual tax was so much, and it comes to 38.9, provided that an allowance is made, and it might turn out to be 46 or 47 per cent, that we would pay 46 or 47. I have a matter on appeal now with the Income Tax authorities, in regard to investments in the Turner Valley area. If I lose that appeal, the year that I lose that my income tax would not be 40%, it will be 49%. If I win the appeal, and get certain assessments, it might be 36 or 37% for that particular year. So that as far as the adjustment is concerned, we would be quite willing to take either, but I think the theoretical computation is the soundest, because, after all, why should this matter be muddled with technical questions which I have with the Income Tax Department on other assets.

R. Donellan,
Cross-Exam. by Mr. McDonald.
Cross-Exam. by Mr. Chambers.

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Q It might be, Mr. Chairman, that there will be further presentations by the British American Oil Company in connection with the absorption plants, in which case I might have further cross-examination of Mr. Donellan.

A I might point out that I do not know of any. I have supplied everything dealing with the assets and liabilities, and I have supplied everything Mr. Hamilton has asked for. I am not contemplating filing any other.

MR. HARVIE: I think what Mr. McDonald has in mind, is in case we make a submission in connection with a decision of some of these other things he is interested in, and in that case if we do that, we will be filing additional information.

.....

CROSS-EXAMINATION BY MR. CHAMBERS.

Q Mr. Donellan, for the purposes of the record, there are one or two matters I would like to get cleared up. Would you turn to Page 4 of Exhibit 161, which is headed "Fuel and Residue Gas Sales During the Period 1936 to 1945 inclusive." Page 4 deals with the year 1944, 1945 only. Now, as I understand it, the gas represented by the first four items, is Major Oil Drillers Limited, Newell and Chandler, Consumers Co-operative and Okalta well #7. In order to arrive at the value in the second column, you charge or apply two cents per M.C.F., is that correct?

A That is correct.

Q And that is what you actually sell it for?

A That is right.

Q And the Mercury-Mill City, that is under a special arrangement, is it? You use values based on excess of wet gas deliveries from Union Freehold less 12% to adjust to dry gas basis over

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dry gas delivered to Mercury. That is not a two cent proposition.

A No. The value for the H.C.F. is shown as 1294.12 for 87,000 H.C.F. of gas.

Q As I understand it, that is under a special contract?

A Yes, that is under a special contract.

Q And then on the sales to Madison, that is the amount actually paid to you by Madison by the Board Order #9, is that right?

A That is correct.

Q And the amount that is paid works out at between 5 and 6 cents?

A 5.6222, to be exact.

Q 5?

A 5.6222.

Q Yes. I notice in the third column \$64.56 credited to the absorption plant in respect of Major Oil Drillers Limited. Now why is that credited to the absorption plant?

A Well, for the same reason, you will notice there is an element of inconsistency, if you will turn to the previous page, 1943. I took that into general company operations. The same item appears in 1944 and I put it into the absorption plant, I put it in there. It is a questionable item. It has nothing to do really with the absorption plant. It is the wet gas before it went through the operations. I put it in one case in the general company operations, and the next time I put it in the absorption plant operations. I am really giving an undue credit to the absorption plant operations by putting it in there.

Q Am I right in this, that all this gas that is shown in the first column was processed in the absorption plant?

A With the exception of that wet gas.

Q With the exception of the Major Oil Drillers?

A Correct.

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Q And I take it that the Newell and Chandler gas, the Consumers Co-operative, the Okalta well and the Mercury-Mill City, that was returned by the absorption plant?

A Yes, afterwards to Highwood Sarcee, I think.

Q How was that returned, by what connection?

A There is a pipe line connection there somewhere.

Q Is it the pipe line system of the Utility Company?

A No. As I recall it, there was a two-inch line somewhere that they used for that gas.

Q And those two-inch lines.....

A They are not included. They have nothing to do with the transfer to the utilities.

Q Then would you turn to Exhibit 162, the first page, Mr. Donnellan? At the bottom you see this statement there where you say, "The statement does include charges from the Utilities Company for 15% of the gathering costs." Now, can you tell me how that 15% was arrived at? Was it a figure taken or is it the result of the actual computation of the volume that is taken out?

A An actual statement of the operating costs of the utility. The utility issued a charge to the absorption plant for 15% of the gathering costs and 75% of the costs of operating.

Q What I am getting at is this; how does the utility company arrive at the 15%?

A By, as you will see from the statement I am going to file in a few minutes, we have the costs of the gathering lines and that is determined each month^{and}/an invoice is made for 15%.

Q But why do they take the percentage of 15%?

A Simply to be in line with the commission. It is just taken that way pending the decision. That is one of the points I have to await so as to be able to finalize it. It has been

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made on the basis of 15% of the gathering costs, and 75% of the costs of operating the water system, and those costs, actual costs, are being carried out and charged by the Utilities Company.

Q Am I right in this, that assuming the Board should decide that the absorption plant should be charged for the gathering charges, or gathering service, based on the volume actually used in the absorption plant, that percentage would not necessarily be 15%?

A No, that was what I had in mind as an alternative value, that I gave this morning.

Q Yes. That is all.

THE CHAIRMAN: Mr. Steer?

.....

CROSS-EXAMINATION BY MR. STEER.

Q Would you turn to that page 4 again, Mr. Donellan, of Exhibit 161? Back on Page 3 you have got there a three hundred dollar charge to Anglo-Canadian, and \$150.00 of it is to absorption plant operations. Where do we find the other \$150.00?

A That is the share that was paid over to the producers under our contract that is in effect at the moment. We have a 50% clause of the sale of residue gas and that is equally divided between the Company and the operators.

Q I see?

A That is the reason for those figures being halved.

Q Then when we come to Page 4 of the year 1945, that gas is all dry with the exception of the first item, I think you told my learned friend, Mr. Chambers. That is, that gas that comes out of the absorption plant?

A Yes.

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Cross-Exam. by Mr. Steer.

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Q Your company then is selling more than its market share of residue gas, is it not, by that amount?

MR. HARVIE: By which amount, Mr. Steer?

Q MR. STEER: By the amount of these items to Newell and Chandler, Consumers Co-operative, Okalta and Mercury-Mill City?

A I shall have to verify what I am going to say, Mr. Steer, but it is my belief that these deliveries of this dry gas are taken into consideration when we are computing the sharing position, but I shall have to verify that. The sharing position is transferred back, I believe, to what we get from the wells, but it is taken into consideration in the sharing position.

Q My recollection of the statement that was produced here, one of the recent Royallite statements, is that this \$175,000.00 was very close to representing the sharing position. Will you check that, Mr. Donnellan?

A I will check into it.

Q Now, if you do not mind looking at Page 25 of Exhibit 161, and the first two pages of Exhibit 162, Mr. Donnellan. These first two pages of Exhibit 162 show the actual operating results before income tax, is that correct?

A Correct.

Q And what about depreciation?

A Depreciation in accordance with the entries actually made.

Q Is included?

A That is right.

Q Included?

A Yes.

Q THE CHAIRMAN: Accelerated depreciation?

A Accelerated rate of 20% in the early years.

Q MR. STEER: And your refinery was constructed in

- -
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what year, Mr. Donellan?

A The Calgary Refinery was constructed in 1939.

Q '39?

A Yes.

Q I gathered that from the early part of this Exhibit 161. And when did the high pressure transmission line commence to be fully operated from the absorption plant up to the Madison scrubber, the end of nineteen forty.....

A There was a short experimental period in December of 1944, but officially, the 1st of January, 1945.

Q And when did the low pressure lines from the South end of the field commence to operate?

A It was a joint operation. The utility operation was brought out for low pressure in December '44.

Q So that they would be fully effective the 1st of January, '45?

A Yes, that is correct.

MR. HARVIE: I think the evidence is that it was along in January some time, not the first.

Q MR. STEER: It follows then that this absorption plant was built in the first instance without any reference to a refinery?

A Correct.

Q Excluding the year 1939, the year 1936 rather, you have got the years 1937 and 1938 with upwards of 10 million M.C.F. treated?

A Yes.

Q And in each of those years you show profits, is that right?

A Comfortable profits, yes.

Q Very comfortable profits. Yes. And there is not a shadow of a doubt had the volume been maintained at those quantities, your comfortable profits would continue?

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A Oh, I think that is a fair statement, yes.

Q Yes. Then in 1939 you got down to 6 million, approximately 7 million; in '40 you go down to 5.2; '41 to 6.8; '42 to 4.9, and ⁱⁿ each one of those years you show losses, I am right in that?

A Yes, those figures are in the red.

Q Then you come to '43, and I take it, that the reason you do not show losses in that year is that it was in that year that you began to receive large revenues for this 45 pound product?

A Yes. You see, that on that type of statement, it shows the revenue has gone up away out of proportion to the volume of gas.

Q Would this be a fair statement, then, that there are two ways in which this B.A. absorption plant can be made to pay, one is that it processes a volume of 10 million or upwards, and the other is that it manufactures from a reduced volume the 45 pound product?

A Yes.

Q Pardon?

A Yes.

Q That is a fair statement?

A Yes. Of course, you can only manufacture the 45 pound product providing there is a use for it.

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Q Yes?

A Either use or sale.

Q Yes. When the Absorption Plant was built in the first instance the proprietors really, I suppose, should have realized that they had to have in sight this volume of gas that we are talking about to make the plant pay?

A Yes, they were just starting out and they were hoping that the gas would

Q I have not any doubt that they were disappointed when in 1939 the volume was so substantially cut and in the following year?

A Yes.

Q That was a disappointment of their expectations? Would you say that would be right?

A Well I would certainly think it funny if that was not correct.

Q Yes, because undoubtedly before they put that plant in there there must have been some calculation made of the volume of the gas that would be available?

A Well no company is investing three or four hundred thousand dollars unless they have a reasonable expectation of getting a return.

Q Yes. Well then, you told us this morning that when you were revising your depreciation, you put it on the basis of the plant operating until 1954?

A Yes.

Q The reason that you take that extended life is largely, and I am going back now to matters we talked over before - is largely because the low pressure system has given you so much more gas to process?

A There is every expectation the plant will be operating until 1954, yes.

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Q Yes and if it had not been for the war and the demand for the 45 pound product, and if the low pressure system had not been installed so as to increase the supply of gas and therefore the life of the plant, how long do you think that plant would have operated?

A I am not competent to say but I can only refer to our representative's evidence before this same Hearing. My recollection is he said $2\frac{1}{2}$ years.

Q Is it a reasonable suggestion that the reason why the losses that were incurred from 1939 on were taken was because the B.A. Company had established a refinery and they required this product? Is that a reasonable suggestion?

A No, I do not think I agree with that. Now what would be the alternative to them accepting this loss, scrapping the plant?

Q Yes?

A I think there was too much at stake to justify scrapping the plant.

Q I see. It comes to this then does it not, that you either would have to cut these losses by scrapping the plant, the war not having intervened and the 45 pound product being in demand that enabled you to make a profit? The only alternative if that had not occurred would be scrapping the plant or taking the losses?

A I do not know that I agree so far as you go. But I cannot go back of the statement of our own representative that the alternative would have been to close down for lack of gas in $2\frac{1}{2}$ years. When they were running that close they would have run it down to a finality throughout.

Q I would be prepared to suggest to you that your company, rather than close down the plant and take these losses, would

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have installed a low pressure on its own bat?

A Oh no.

Q You think not?

A No, I know they would not.

Q Now aside from what Mr. Hamilton had to say, you have in your books written off this plant over the period up to the end of 1944 with the exception of \$70,000.00?

A That is right.

Q In addition to that, you have been able since 1939 to supply your refinery with a product which otherwise you would have had to go out and purchase?

A At the same standard price, yes.

Q Now could you get the product at that same standard price? If so, where?

A Well that is an impossible question for me to answer outside of the fact that I can only refer to the fact that we use absorption gasoline at our Montreal refinery and we have always managed to purchase our requirements.

Q Do you know where you get it?

A Somewhere in the United States, I do not recall where.

Q Do you know what you pay at your United States delivery point and what your duty is and what it costs you?

A I could find it out for you.

Q If you are prepared to give it, Mr. Donellan, I would like to have you suggest, if you did not have this product from your own plant, where you would go to get it and what it would cost you?

A The difficulty of supplying an answer to a question like that is you say: "Well now, could you have got it?" "Yes, it is quoted here." "Could you get delivery?" And it is

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the easiest thing in the world to prove I could not have got delivery in the particular year I am talking about. Well, I did get it. There are all kinds of implications. You have to make exchanges to crude oil in order to get something. I might easily turn up and say well to our refinery, say in a given year could you have purchased that quantity of absorption gasoline and where would you have got it from?

Q What did you do in the years 1936 to 1938 inclusive with your product? It went to the Bell Refining Company did it?

A A very small amount.

Q And then what was done with it?

A My recollection is some of that was naphtha. No, they were operating a small refinery down here then.

Q Who were?

A The Bell Refining.

Q What was done with the balance. In other words, what is the explanation of these items on page 1? Bell Refining Company and Calgary Processing account.

A I recall it now. The Calgary Processing account. We had before the completion of our Calgary refinery, the British American Oil Company had an exchange arrangement with the Imperial whereby they ran through for us at their Calgary Plant and we ran through it for them at our Coutts plant, and we supplied them for the Processing account, we supplied them with the absorption gasoline.

Q You had a refinery at Coutts?

A Yes, we had a refinery at Coutts.

Q Before this one was built?

A I do not recall what date we bought that at Coutts. I know it was at the time of the Processing account.

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Q Have you any idea when the Coutts refinery was built?

MR. HARVIE: That was prior to the Absorption Plant being built.

A I will have to check up the date. My recollection is. . . .

MR. STEER: I do not want the date. My learned friend, Mr. Harvie, tells me that you may say it was built prior to 1936 and in operation.

A That is my impression and he supports me.

Q Now that Coutts Refinery would require this absorption product, or would it?

A Not necessarily. A lot depends on the grades of gasoline that you are making and the type of crude that you are running and also the type of the equipment which is installed.

Q All right. Then perhaps you will explain just what your deal was, this Calgary processing account.

A The Calgary Processing account, as I say, was an arrangement whereby we supplied crude oil to the Imperial Oil at Calgary and they manufactured gasoline to our specifications.

Q You supplied crude?

A We supplied the raw material and we also supplied the absorption product.

Q And that crude, would that be your own? You did not produce crude, did you?

A No. I say we got crude that might have come from our crude wells; it might have come, we might have had to import it from Cutbank or wherever we were getting crude at that time.

Q You would be getting crude for the purpose of your Coutts refinery, is that it?

A No, the Imperial Refinery was acting as a custom refinery for us. We were supplying the raw material and they were

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manufacturing the finished product to our specifications.

Q The reason I got into this was I thought you mentioned the Coutts refinery?

A We had an exchange arrangement with Coutts by which it did the same thing for them.

Q You did the same thing for the Imperial?

A We did a corresponding thing for the Imperial down there.

Q You are not prepared to say whether or not you required this absorption gasoline in your Coutts Refinery?

A No.

Q You can get that for me?

A I can find out if we had to use it.

Q The reason I am asking you about that, Mr. Donellan, is this statement of yours at the top of page C of Exhibit 161 to the effect that this absorption plant - in the second line - manufactured a product used in other departments and not a final product for sale.

A Yes.

Q I would have thought from that statement that when you were manufacturing this absorption gasoline, you were manufacturing it for the purpose of using it further in your manufacturing processes?

A That is just what I meant by that. It is used as a blending agent.

Q That is all.

MR. McDONALD: I might point out the British American operated the refinery at Moose Jaw at the same time in 1930 and 1931.

MR. STEER: I would like to have all the information. Mr. Donellan has as to what use was made of this absorption

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gasoline from 1936 on and if you had a plant at Moose Jaw, I would like to know about that.

A This statement here, I think, gives it all to you. At least I thought it did.

MR. HARVIE: I wonder if this is relevant, going into where products over which this Commission years ago dealt with or products that are dealt with I do not know whether this Commission has any jurisdiction over it or any interest in it. I do not think it is relevant in any sense. I think we have supplied all the information that our books disclose in this inquiry and if there is anything more that can be helpful to him, I am sure that we will be pleased to give it. But there must be some end to it, surely.

MR. STEER: I am quite prepared to say/^{to}my learned friend that the information that has been supplied is very full and very helpful. At the same time I submit I am perfectly within my rights in knowing the history of this absorption plant.

THE CHAIRMAN: Well I feel that I want all the information I can get in order that I shall be completely fair to the absorption plant and to the producer. I do not know what the effect of these questions may be. If you can give the information, Mr. Donellan

A I will be glad to make inquiries and give the information.

MR. STEER: I do not want anything in the nature of detail at all. I would like to know simply what was done with this absorption plant product in 1936 on with reference to any refinery operated by the B.A. oil.

Q THE CHAIRMAN: You have had a refinery in Moose Jaw for quite a long time?

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A yes. I kept away from Moose Jaw because my recollection is we never sent any over to Moose Jaw. It is a case of me analyzing these inter-departmental transfers for you.

THE CHAIRMAN: Yes.

.....

CROSS-EXAMINATION BY MR. BLANCHARD:

Q Do you use Turner Valley absorption gasoline in the Moose Jaw plant?

A That is what I was just commenting on to the Chairman. I am not prepared to say that we never did but I will just have to prove it. I am almost prepared to say we never shipped any but there might be just a small amount that I would have to correct that.

Q This refinery in Moose Jaw, does it use this type of product for blending?

A Depending on the type of crude which is running and depending on the product which is made.

Q I was wondering whether it has been using absorption gasoline not obtained from Turner Valley within the last year or two?

A I think not within the last year or two.

Q You would be able to find that out?

A I would be able to find that out.

Q And the cost of it?

A For example, I do not think we have ever used gasoline, absorption plant gasoline at our Clarkson refinery because we have a different process and we are using different crude.

Q If there was no absorption plant gasoline produced in Turner Valley by your company, where would you go to get it? Where is it manufactured?

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A That is what Mr. Steer is asking me. I simply put the purchasing agent around to find where the market is and decide on one of two factors. Do I need absorption gasoline, what is it going to cost me if I started to use crude of such a price and I will get crude from another field it might cost me no more and I would not need the absorption gasoline. That is the difficulty there in answering Mr. Steer, because we have been faced with that problem in Montreal.

Q Well you are going to get all that information?

A I will try to get the information for you.

Q Have you a uniform form of contract with all producers with respect to the processing of their gas?

A Substantially uniform. It does vary, some for a set period and some for the life of the well but substantially yes.

Q Are they all uniform insofar as the share of the product going to the producer is concerned?

A Yes. I do not know of an exception. 80-20.

Q Are all contracts uniform in providing that your company is entitled to 50% of the residue gas?

A I believe so. There might be one or two exceptions to that.

Q And in consideration of the producer entering into these contracts, your company was to of course gather his gas?

A Yes.

Q And do your contracts provide that you would furnish return fuel for drilling purposes or anything of that kind?

A I forget the phraseology of the contracts. My recollection is that the contracts in all cases, in practically all cases, leave the gas as the property of the producer. He can take it back.

Q He can take it back?

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A He can take it back.

Q But he would have to provide the return fuel line?

A He would have to provide the return fuel line.

Q Have you with you a standard form of contract?

A I do not believe I have. No, I did not bring it today.

Q You have not one then? I wonder if it would be of some value to the Board to have this form of contract before us?

MR. HARVIE: We will file that.

THE CHAIRMAN: You can have one here tomorrow?

A I can bring it tomorrow.

MR. HARVIE: As a matter of fact, it is already filed.

THE CHAIRMAN: I have an idea there is one filed.

MR. BLANCHARD: I was trying to remember whether one had been filed. I remember we had some discussion about a standard contract approved by the Association in the United States but I did not think we had a British American form.

Q Now what happens when a producer who is connected with the Madison lines or the G. & O. P. lines transfers his well and is connected with your system. Do you make a new contract with him or take an assignment of the contract from Madison or the G. & O. P. as the case may be?

A I will have to refer to our Legal Department for that. I rather think we just take an assignment of the contract. Mr. Harvie, can you tell me that?

Q Perhaps Mr. Harvie can inform us about that. You do not know?

A No, I do not know.

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MR. HARVIE: What is it you want now ?

MR. BLANCHARD: I want to know what the mechanics are, where the wells have been connected with Madison or G.O.P. and are transferred and connected with your absorption plant ?

MR. HARVIE: I think the general practice has been where the Madison has a contract, that we take an assignment of their contract . So far as the G. O. P. is concerned I do not think we have any assigned contracts from them at all.

MR. HAMILTON: When you say "Madison" do you mean "Royalite"?

MR. HARVIE: Royalite.

MR. BLANCHARD: And I should have said "Royalite" myself, but wells connected with the Madison system, that is what I am trying to get at.

WITNESS: Yes.

MR. CHAMBERS: May I interrupt, is this not so, that the wells which are connected to the Madison system, they are covered by contract with B. A., and Madison makes settlement to B. A., to the British American ?

WITNESS: To the British American but Mr. Blanchard was asking me whether a new contract was made or whether the old contract was assigned over. The Royalite pays B. A. in respect to those contracts and then we make the distribution to the producers.

MR. HARVIE: Where we have contracts in the north end of the field - -

THE CHAIRMAN: They are excluded.

MR. HARVIE: We still hold those contracts and we in turn give the Madison Company their standard form of contract with the necessary changes. Where we have taken over the wells in the south end of the field from Royalite, those contracts

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have been assigned to us.

Q MR. BLANCHARD: And in those cases then you return to the producer whatever he is entitled to under the contracts that have been made with Royalite ?

A Yes.

Q And in those cases I assume that if the Royalite contracts did not provide that Royalite was to retain 50% of the residue gas you do not retain 50% of the residue gas in those plants covered by those contracts ?

A Well a letter was sent to all producers at the time of the opening of this inquiry and the full two cents has been held in suspense. It has not actually gone out to the producers but it is not going into the revenue account either.

Q MR. HARVIE: There is an interim arrangement for distribution after the end of this inquiry ?

A Yes.

Q MR. BLANCHARD: By the way, you were referring to the income taxes, I take it that the British American Oil Company Limited has paid income tax in all these years since 1936 ?

A That is correct.

Q And that where there were losses by the absorption plant division on your books, in 1936, 1939, 1940, 1941 and 1942, that would result in a lower tax being paid by the rest of your Company ?

A Yes. Mr. Hamilton drew my attention to that and that was a correction. That statement which I filed of forty thousand is excessive by not taking into account the red figures.

Q And there is no way of saying how much ?

A Oh yes, that could be easily computed.

Q It could be computed ?

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A Yes, it could be easily computed and I will give that to Mr. Hamilton.

Q Now then assuming that the installations made for the purpose of providing the forty-five pound product, were to be useful only for the period of the war or until the end of this year, would you say that it was proper practice to amortize the net costs of those, that is the cost less what is returned by the Government, over that period ?

A Over which period ?

Q Over the period until the end of 1946 ?

THE CHAIRMAN: The period during which the facilities were used.

Q MR. BLANCHARD: Yes.

A Well of course it does not apply, it relates back to the agreement with the Government, it relates back to the contract with the Government, and my understanding was that at the expiration of hostilities the plant would be valued. If that value was greater or less than the 40% remaining on the books, an adjustment either way would be made, as for example, if there is no market for a forty-five pound product, I would take it then we would say "There is no value to that plant" and the Government would reimburse us the twelve thousand. If we decided it is worth something we might have to pay the Government a little more. That is why I have kept it entirely in suspense. I have put the thirty thousand dollars in capital expense account, the payment I mean.

Q If the additions or extensions are not useful at the end of say 1946 then you would write off the net cost - -

A On your assumption that the value of that plant now, because we are making a forty-five pound product, I mean if at the end

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of 1946 I have to revert back to a twenty-six pound product, what am I going to do with the question mark value of the plant, -

Q Yes.

A I would write it off over, well, I don't know, - over the future life of the plant I think, a short time life.

Q Over the future life of the plant ?

A Yes. I really am hesitating, I am hoping the question will not arise. If there is no value at all it will be a working asset, but I see the point you are trying to make, that I might have a value now and twelve months from now have no value then. What am I going to do with the value of it then, is that your point ?

Q Yes.

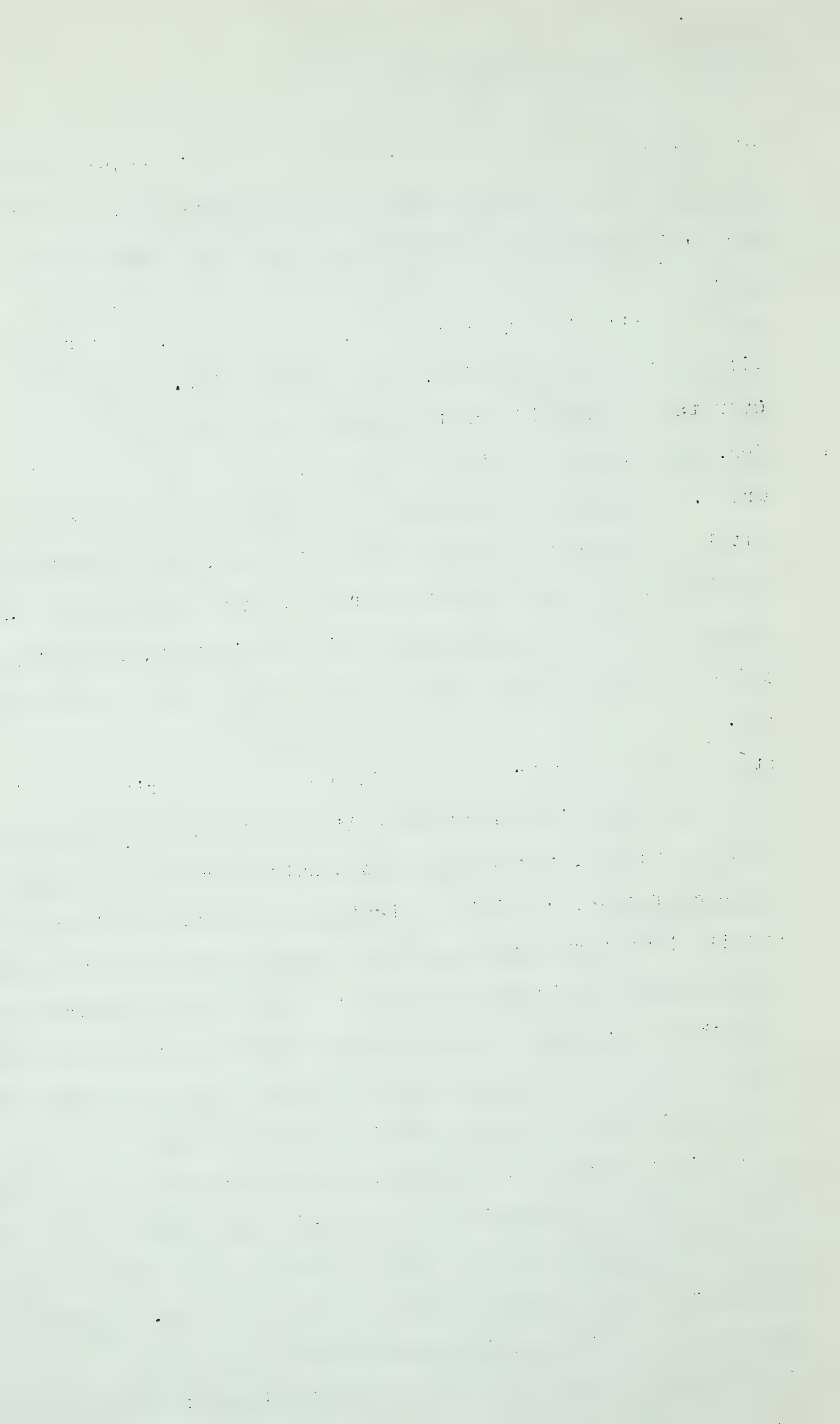
A It would not be fair to write it off on one year's operation. You would write it off over the life of the plant, because the reason would be, because if it was said there was no value at the end of 1946, conditions might change before 1947 or 1948 and it might turn around and have a value and my suggestion would be to amortize it over the rest of the life of the plant.

Q When the contract was made it was assumed that the installations would cease to be useful at the end of the period ?

A No. I think when the installation was made they realized that there might be a substantial value, or there might be no value and the Government said "We will pay 60% of the cost and we will settle the value of this plant when the contracts or hostilities are over and if the value exceeds 40% you pay us."

Q What I had in mind is, if you cease to manufacture your forty-five pound product, say at the end of this year ?

A Yes.



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Q Then you come to a situation where your old installation would be entirely adequate ?

A Yes.

Q To manufacture your lighter product ?

A Yes, the lesser weight.

Q And these additional installations would be simply useless ?

A Well if that question, if that condition ever comes up, by the time the negotiations with the Government are completed, if there will be no value to the plant, the Government will reimburse us for the rest of our expenses, that is the meaning of it.

Q The other 40% ?

A The other 40%. It works either way, or both ways.

Q So you still may get your full 100% ?

A If I have no use for the plant and that is why I have held the whole thing up in suspense.

Q And if the Government does not do that what will you do by way of writing off that ?

A Well I would, whatever value was left, as I say, on the reasoning I have just given, I think I would write it off over the estimated future life of the plant.

Q You would load the other facilities with the payment ?

A Yes, plant operations, yes.

Q Why do you say that this plant is not going to operate after 1954 ?

A Just on the statement of the estimates of the Valley or the amount of the gas available and the evidence of our engineers.

Q Will you not be producing the gas cap after 1954 ?

A We have no gas cap in the south end. You mean, the repressured gas ?

R. Donellan,
Cross-Exam. by Mr. Blanchard.
Cross-Exam. by Mr. McDonald.

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Q Yes.

A Well all the estimates I have seen, by all those estimates we will be finished by 1954.

Q You were saying you have no gas cap wells for the absorption plant in the south ?

A I did say that and I am just wondering whether I am right or whether I am not.

Q I was rather surprised when you said it because I assumed that you have but are you approaching it from the standpoint that you are going to write off the entire investment by 1954 or that your plant is going to cease to operate by 1954 ?

A Both, is what I am working on.

Q Both ?

A Yes, I am assuming the plant will cease to operate and I must provide for amortizing the whole of the plant.

MR. BLANCHARD: All right, that is all.

CROSS-EXAMINATION BY MR. McDONALD:

Q Just one thing, Mr. Chairman. Have you given consideration to the salvage at the end of 1954 ?

A Not so far. I think we have to salvage and in my opinion that can only be taken into consideration when you are within measurable distance of closing down.

Q That is to say, probably in 1950 ?

A It may be advisable then to consider it.

Q And revise the amount allowed for depreciation ?

A Yes. The matter would then be taken into consideration that this will have a salvage value, or it will not have a salvage value. Developments are so quick in coming about that we did not consider salvage at this stage.

R. Donellan,
Re-Direct Exam. by Mr. Harvie.

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THE CHAIRMAN: Any further cross-examination. Any further re-examination, Mr. Harvie ?

MR. HARVIE: No. There is no re-examination on that point but we have another Exhibit which we want to put in in connection with the utility operations, bringing the information filed right up to date, to 1945.

DOCUMENT PRODUCED HERE MARKED AS
EXHIBIT 164.

RE-DIRECT EXAMINATION BY MR. HARVIE:

Q Mr. Donellan you have a further statement to be filed and which has just been filed as Exhibit 164, will you explain what it is.

A The covering note reads as follows:

"THE BRITISH AMERICAN GAS UTILITIES LIMITED

Attached are statements covering operations for the year ending December 31st, 1945, together with a Balance Sheet of British American Gas Utilities Limited as at December 31st, 1945.

Also attached is a statement summarizing the Operating Costs for the year by Departments, and a comparison with the estimates as per the Company's submission Volume 5, Exhibit 113B."

There is very little I can say about them.
They are rates financial.

The first statement is the balance sheet as demonstrated from the Company's records. The only point which I think calls for attention or calls for comment is the suspense credits under "Liabilities" \$45,440.81. That represents a provision for the gas gathering lines and the water system on the basis of our submission.

R. Donellan,
Re-Direct Exam. by Mr. Harvie. - 6147 -

The assets are actually still owned by the British American Oil Company but they are not being used there and I could not depreciate them and could not give a picture of the utilities without taking something into consideration for them so the utilities company provided for the return of investment and the amortization on the basis of our submission.

The item "Reserves" is self-evident, that is the amortization of the general plant and auto equipment, still based on the basis of the submission.

The second statement represents a summary of the operating expenses for the 12 months ended December 31st, 1945, just as an abstract from the books of accounts. That shows in that an operating deficiency at the moment of \$61,473.21.

The third statement

Q MR. STEER: While you are on the second one, Mr. Donellan, on the first page you show "amortization", \$70,000.00.

A Yes.

Q And then on the second page, you have got "Provision for Amortization and Return on Investment of Assets to be Transferred", an amount of \$45,000.00; what relationship is there between those two?

A The amortization of \$70,280.35 represents the amortization of the assets which are owned completely by the British American Gas Utilities.

Q MR. HARVIE: That is the new installations?

A Those are the new installations, whereas the \$45,000.00 represents provision for similar charges for those assets which are being transferred from the British American Oil

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Company.

Q I understand.

A The third statement is an actual recast of the operating account. It is a summary of the operating costs, including administration, depreciation and return on capital employed for the year 1945, showing the various departmental totals and then on the outside column are shown the estimates which were made in our submission, Volume 5, Exhibit 113B. The difference between the two statements being that on the first statement I show Return of Capital Employed as an item of operating expenses of costs, whereas in the other statement the net balance is what is available for return of capital.

Q Where is your Return of Capital on page 1?

A It is not in, on page 1 of the estimates?

Q Yes?

A I simply show, on the evidence which has been given so far, I have the discrepancy or shortage on operations of \$62,412.39.

Q That is on the balance sheet?

A That is on the balance sheet.

Q And on the third page you have the \$70,000.00 but that does not include Return on Capital?

A Oh no, that is a charge for the amortization, charged to expenses.

Q And then on the second page of that you do show "Return on Investment"?

A What do you mean? I am afraid I am not following you, Mr. Steer. Here you see the provision for amortization, that is where I got into difficulty with having assets in one picture and not in the other.

Q MR. HARVIE: Mr. Donellan, it might be possible to

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just explain how that was figured on the basis of those assets, those old assets being taken over by the new, were they treated on a rental basis?

A On the basis of rental or a lease basis. The utilities company has set up the provisions on the same basis. For example, supposing this Board ruled that the utility would not take those over, so this is set up as showing it on a basis of a rental charge at this time.

(Go to page 6150)

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Q MR. HARVIE: And that rental charge is made up with the identical items you consider should have been allowed on the commission to the commission ?

A The rental charge here is identical with what we have submitted in our various submissions.

THE CHAIRMAN: Which would be depreciation plus the return on the value of the asset ?

A Yes.

Q $9\frac{1}{2}\%$ I presume ?

A After tax, yes.

Q MR. STEER: What we have to face according to this statement is a loss of \$62,000.00 and to that has to be added depreciation and return on investment.

THE CHAIRMAN: No the item of \$45,440.00 as I understand it, you are treating that as a rental at the moment. That rental is computed or made up of a depreciation of those assets plus a rate of return of 9% per annum as if they had actually been transferred to your Company ?

A Yes sir.

Q MR. STEER: And I follow that but I do not follow the amortization of \$70,000.00 on the first page in respect to the new construction and I do not see any provision there for the return ?

A No, there is not any.

Q Is there provision for depreciation ?

A Well the amortization is the depreciation.

Q Well then have we got to face \$62,000.00 plus the return on new construction ?

A Yes, on the basis of our submission we are actually short of getting the return required of \$174,856.60.

R. Donellan,
Dir. Exam.

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Q \$174,000.00 ?

A \$174,856.60.

THE CHAIRMAN: Now that would be on this next page ?

A No, that is just a coincidence.

Q MR. HAMILTON: Perhaps it would help, sir, if Mr. Donellan would show us how he gets the figure of \$174,856.60 ?

A I was hoping Mr. Hamilton to have a statement. I would be only too glad. It is a complicated statement to give in the witness box. I tried to simplify something and I really have not got it really simplified.

Q MR. HARVIE: You will give the detailed breakdown ?

A Yes, and I will endeavour to simplify a statement. I have some working papers here and wanted to file as Exhibits but I am afraid the additions and deductions are such I would be glad to go over it with you after this.

Q MR. HAMILTON: The only thought is if you had it after adjournment tonight it would save time tomorrow ?

A Well it is not in the form of statements. I have all the information here just for the purposes of the record, but it is too - I wonder if I can just give it to you, to summarize it. If you take Page 2 of this Exhibit I have just filed, take the total revenue of \$183,754.94, then first deduct against that the two items which are shown on the statement 1, of \$158,424.40, being the operating expenses and \$69,590.28 which you will find on the next page, being the provision for payment re the gas that was used. After that again the amortization of items still to be transferred from B. A. That is in connection with the high pressure lines and the water \$18,148.38.

Q MR. HAMILTON: That is amortization only, not return ?

A Yes, just amortization. That gives you a total of \$246,163.06.

R. Donellan,
Dir. Exam.

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Q MR. STEER: And this \$18,138.00 ?

A \$18,148.38. Deduct from that total further charges which will have to be made to the British American Oil Company of \$10,331.95 additional charges for the G. & O. P. \$10,331.95.

Q MR. HAMILTON: What is that for ?

A That is the proportion of the return of investment of the high pressure lines and water which will come back to the British American once this Board has given the ruling. Similarly the G. & O. P., there will be an additional item of \$11,322.58 as you will recall our submission was based on five years but the Board's order came down for \$1,000.00 a month as against \$2,000.00. Those deductions amount to \$21,654.53. From the \$246,163.06, gives me an operating loss of \$40,753.59. Now the set off on one side, the return on investment called for by our submission, is \$143,927.67, and deduct from that the amount to be charged to British American of additional items for the high pressure line and water \$9,824.66, so that I actually require a return on investment in accordance with our submission of \$134,103.01, against the above deficit of \$40,753.59 gives me the amount which we are short of return as claimed of \$174,856.60. I am afraid that is all involved in the witness box. If anybody likes to stay afterwards I will be only too glad to go through the figures and they will be on the record.

Q MR. CHAMBERS: Mr. Donellan, would you turn to the last page of Exhibit 164 ?

A Yes.

Q Column 2 gives the total operating cost and capital charges on the low pressure compression station, is that right ?

A That is right.

R. Donellan,
Dir. Exam.

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Q And the third column gives the same charges with respect to the high pressure ?

A The high pressure.

Q Now do those compressor stations handle wet gas or dry gas exclusively ?

A The low pressure station is the one which takes the gas into the plant and the high pressure station is the one that takes the dry gas from the plant.

Q So that the low pressure compressor station handles wet gas ?

A Yes.

Q And as I understand it in this Exhibit 164 you have not set up or charged against the absorption plant 15% of those low pressure compression stations ?

A No, because on the basis of our submission you will recall we submitted our estimate as being 15% of the gathering charges.

Q And likewise in Exhibits 161 and 162, the 15% charged there against the absorption plant does not include any part of the compressor station ?

A Of the compressor station, correct sir.

THE CHAIRMAN: Mr. Fenerty - Mr. Steer ?

MR. STEER: Nothing else.

MR. BLANCHARD: I would like an opportunity of examining this in the light of the evidence given as to this deficit ?

THE CHAIRMAN: Anything further today. Then we will adjourn to 9.30 tomorrow morning.

(At this stage the Hearing was adjourned until 9.30 A.M.
Tuesday, March 19th, 1946).

